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NOMINATION OF RICHARD G. DARMAN

HEARINGS

BEFORE THE

COMMITTEE ON
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

ON

NOMINATION OF RICHARD G. DARMAN, NOMINEE TO BE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

JANUARY 19, 23, 1989

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NOMINATION OF RICHARD G. DARMAN

THURSDAY, JANUARY 19, 1989

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee convened, pursuant to notice, at 9:33 a.m., in room SD-342, Dirksen Senate Office Building, Hon. John Glenn, Chairman of the Committee, presiding.

Present: Senators Glenn, Nunn, Levin, Sasser, Pryor, Bingaman, Kohl, Lieberman, Roth, Stevens, Cohen, Rudman, and Wilson.

Chairman GLENN. Welcome to our hearings on the nomination of Richard G. Darman to be the Director of the Office of Management and Budget.

Mr. Darman, we are glad to have you with us this morning. I see that you are flanked by two of our colleagues today. I trust that this is the beginning of a bipartisan economic effort with you and with our Virginia colleagues here, representing both parties. We hope that is exactly the way it works out this year. I know they came to introduce you this morning, and we are glad to welcome both of them.

Senator Warner, if you would care to make your remarks first.

TESTIMONY OF HON. JOHN W. WARNER, U.S. SENATOR FROM THE STATE OF VIRGINIA

Senator WARNER. Thank you, Mr. Chairman and Members of the Committee.[1]

It is a great pleasure for me to be here today to introduce to your Committee Mr. Richard Darman, President-elect Bush's nominee to be the Director of the Office of Management and Budget. I realize full well that the Members of the Committee know him and are aware of his past experience, so I shall be brief.

My long friendship with this fine American began in 1972-73, when I was privileged to serve as Secretary of the Navy, and he was then brought in to the Department of Defense as a principal troubleshooter for the Secretary of Defense. I think we caused more trouble than we solved, but anyway, we did our best together on a number of projects.

The most formidable task facing the incoming Administration will be the reduction of the Government's budget deficit, and in that context, the ordering of the priorities of Federal expenditures for the Nation. This fine American will hit the ground running; he needs no on-the-job training.

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[1] See p. 153 for Senator Warner's prepared statement.

By way of history, from 1985 to 1987, Mr. Darman served as Deputy Secretary of the U.S. Treasury. He was a key negotiator of the comprehensive tax reform legislation enacted in 1986 and of the International Economic Policy Agreement, known as Plaza I, and related agreements among the major Western industrial nations.

Prior to assuming his position as Deputy Secretary of Treasury, Mr. Darman served in the Reagan White House from January 1981 to January 1985 as Assistant to the President and Deputy to the Chief of Staff.

He helped negotiate the Budget and Tax Acts of 1981, the Tax Reform Act of 1982, and the Social Security compromise of 1983.

He was a member of the U.S. Delegation to the Summit Meetings of Industrialized Countries from 1981 through 1986.

Mr. Darman served as Assistant Secretary of Commerce for Policy under President Ford.

He has held senior policy positions in six U.S. Cabinet departments—Health, Education and Welfare; Defense; Justice; Commerce; State, and Treasury.

In the private sector, Mr. Darman has been a Fellow of the Woodrow Wilson International Center for Scholars; a principal and Director of ICF Incorporated; a member of the faculty of Harvard Graduate School of Government; a Director of American Capital and Research Corporation; a Trustee of the Brookings Institution, and a contributing editor of "U.S. News & World Report."

Mr. Darman has numerous accomplishments to his credit prior to entering public service, for which he is justifiably proud. Indeed, Mr. Darman was an honors graduate of both Harvard College and Harvard Business School.

Balancing this early life in the North, he had the wisdom to move South. He has lived in the great State of Virginia for some 16 years now.

I shall submit the balance of my statement for the record, Mr. Chairman.

I welcome this opportunity, my first appearance with my longtime friend, Senator Robb.

Chairman **Glenn**. Without objection, your statement will be included in its entirety. Thank you.

Senator Robb?

TESTIMONY OF HON. CHARLES ROBB, U.S. SENATOR FROM THE STATE OF VIRGINIA

Senator **Robb**. Thank you, Mr. Chairman.

I am very pleased to join my senior colleague, Senator Warner, in formally presenting Mr. Darman for confirmation by this Committee. I cannot say that my personal friendship and association goes back as Senator Warner's, but the association that we have had has been extremely pleasant. We found in the normal courtesy briefings that have been conducted by Mr. Darman and other members of the incoming Administration with members of the committees with which they will be working, that among other things, we are near neighbors. And I assumed that my senior colleague would cover all of the background material, so I have conducted a check of the neighborhood, and I want to inform you that all of his neighbors have the same high regard for Mr. Darman that Senator Warner and I have.

I am not certain—I was just asking him if anybody had served in more departments of the Federal Government; I asked him about former Secretary Richardson, and he said he thought he only had five, and this is six, will be seven. I do not know what his next post in the Federal Government will be, but when he completes this journey it will be a rather extraordinary venture in familiarity with all the branches of Government. He has taught each of us lip-reading in our individual capacities so that we can further understand what is going to be necessary to solve the problem, and for individual Members of the Budget Committee, he has disclosed the ultimate secrets which shall be revealed during the course of the next year or so.

Other than that, I am very pleased to join in recommending confirmation to this Committee, and I am very pleased to join my senior colleague, Senator Warner, in presenting him to you this morning.

Thank you, Mr. Chairman.

OPENING STATEMENT OF CHAIRMAN GLENN

Chairman GLENN. Thank you both very much.

Mr. Darman, let me say that your nomination proves once again just how wrong all the so-called experts can be sometimes, because after last year's Presidential election, all the experts said it would be a very long time before anyone raised in Massachusetts and educated at Harvard would be running the Government.

But in all seriousness, and with all due respect to the Vice President-elect, I consider the OMB Director's post to be the second-most powerful job in Government. I do not overstate that at all. OMB has immense authority, and Mr. Darman will have a leading role in shaping national policy.

As OMB Director, Mr. Darman, you will recommend where every single Federal dollar is spent. Moreover, you will be overseeing how each of the hundreds of Government programs is managed. That is the "M" in OMB, something that may not have received the emphasis in the past that it should have.

You will also exercise control over the regulatory apparatus of the Federal Government. Most importantly, you will have authority to accept or reject proposed agency regulations governing such vital matters as public health, worker safety, and environmental protection. And you will supervise not only what information the Government collects from the public, but also much of what information the Government gives to the public.

There is another dimension to this nomination that distinguishes it from those of your predecessors at OMB. I am speaking of your unique skills and background. Mr. Darman's work experience in the White House has been pointed out, as well as his experience in six Executive Branch departments. This makes him perhaps the most qualified individual ever to have been nominated for this important position.

So Mr. Darman certainly has the potential to raise OMB to new heights, a fact that this Committee will consider very carefully.

Because of OMB's broad authority and Mr. Darman's ingenuity and influence, the decisions he makes will help determine the course of our Nation's economic growth, prosperity and quality of life. It is not just the next four years we are talking about. Decisions made in your office, Mr. Darman, may very well affect the Nation's course over many decades; in other words, the legacy that this Government will leave for our children and our grandchildren.

The legacy we face today, created under the stewardship of the Reagan Administration, is one of unprecedented and intensifying budgetary and economic constraints. The Federal debt stands at almost $3 trillion, and it increases about $400 million each day.

As recently as 1982, the United States was the world's largest creditor nation. At present, our indebtedness to the rest of the world—about $500 billion—represents the largest amount owed by any single country. This adds up to a formidable accumulation of financial claims on future economic output. In other words, we are a Nation living on borrowed money and borrowed time.

Unfortunately, investment in the assets needed to produce future output has not increased commensurately. Our rate of investment in businesses and plants is at a 40-year low. Our investment in the human capital necessary to enhance, let alone maintain, our productivity is insufficient. Our chronic trade deficits of upwards of $150 billion a year are a clear signal that the competitiveness of the U.S. economy in the world marketplace has declined. Gone are the days of our unquestioned industrial preeminence.

It is relatively simple to assert what types of policies are necessary to reverse this course. We need to invest more in programs stressing education and in civilian research and development, the two engines that made this country basically what it is today and will be in the future.

But the difficulty is that actions likes these cost money, and in the face of huge budget deficits, money is hard to come by. Just yesterday, the Comptroller General of the United States testified before this Committee and said that although it appears we are running a budget deficit of $150 billion, in fact, if trust fund surpluses are not included, the true deficit is on the order of $263 billion. To illustrate we left some of the charts up today that GAO had before us yesterday.

This means not only can we not spend enough to become more competitive; we cannot even seem to find the money to keep pace with the rest of the world's economy.

Equally important, we are now confronted with a series of budgetary crises, such as: the savings and loan problem, the deterioration of the nuclear weapons complex, a troubled air transport system, hazardous waste clean-up, housing and infrastructure maintenance, Federal prison construction, DoD outyear overruns—the so-called "bow wave". The Comptroller General has estimated that these will cost more than $365 billion to fix. Several years ago, we did not even know these problems existed. Those are listed as some of the "unfunded costs" on the chart there.[1]

Who knows what new demands on the budget lurk around the corner? The point is, we do not have a contingency fund in place to take care of the existing crises, and we are not putting away dollars for the surprises the future certainly holds.

With all the talk of not wanting to raise taxes and all the debate about just what constitutes a "tax," there has been insufficient attention paid to the tax implicit in the Reagan Administration's policy of reckless deficit spending—the tax that will be levied on the future generations of Americans who must pay off our enormous debt. Most of these taxpayers do not yet vote—indeed, most of them are not yet even born. And as Mr. Darman pointed out in one of his answers to our pre-hearing questions, this policy has been one that could be termed for future generations "taxation without representation".

It is my sincere hope that this new Administration will reorient the Nation's budget deficit and debt plan in a kinder and more gentle direction. But we also need a more credible plan. The stock markets tell us that; common sense tells us that. We cannot pretend to grow out of the deficit. We have been trying that for eight years, and it is obviously a policy that has not worked.

So Mr. Darman, you will have as much control as anyone over the economic legacy we leave. You will help set the tone for the budget debate, and you will help determine whether the Executive and Legislative Branches cooperate with one another.

Now, for the hearing record, I must summarize the Committee's inquiry into Mr. Darman's qualifications, integrity and background. I think Mr. Darman would agree that the Committee's investigation has been thorough and very extensive. We do that on this Committee because—I would add to my prepared statement—in times past, we have had some instances where these things were not looked into enough, and we came to regret it later on when people were in the job to which they were confirmed. So some years ago, we revised the Committee's policies, as far as investigations, to be very thorough and extensive.

I want to acknowledge today Mr. Darman's cooperation in providing the necessary information for the Committee to complete its investigation. We sometimes have a little difficulty getting all the information we need, but his performance in supplying the information and being cooperative with the Committee and the staff has been exemplary. We hope that all of our nominees will be just as cooperative in the future as he has been.

The Committee has received from the nominee financial statements as well as detailed information on his educational background, employment record and professional achievements. In addition, Mr. Darman has responded in writing to over 100 pre-hearing questions submitted by the Committee concerning the duties and responsibilities of the OMB Director's position. Copies of those replies have been made available to the office of each Senator here.

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[1] Charts referred to throughout start on p. 159.

Copies of the biographical information and pre-hearing responses will be placed in the record as part of this hearing and are available upon request.

The financial statements are available for inspection by the public in the Committee office.

Committee investigators have also examined the financial disclosure report submitted by the Office of Government Ethics to ensure that no conflicts of interest are present.

I should note at this juncture that both Mr. Darman and his wife have established separate, qualified, diversified blind trusts, pursuant to the Ethics in Government Act. These blind trusts will protect the integrity of Mr. Darman's actions as OMB Director by shielding him from any knowledge of the composition of his own and his wife's personal financial portfolios.

Committee staff have met with Mr. Darman and with officials of the Office of Government Ethics to review the terms and conditions of these trust agreements. I am pleased to say that everything seems to be in order and that both trusts comply with the provisions of the Ethics in Government Act.

It is my understanding that on December 14, 1988, these trusts were certified by the Director of the Office of Government Ethics in concurrence with the Attorney General as required by law.

Finally, I want to note that I have reviewed the FBI background investigation report on Mr. Darman under our Committee procedures. The Chairman and the Ranking Minority Member do that on behalf of the whole Committee. I have looked through that report. My distinguished Ranking Minority Member, Senator Roth, will be doing that this afternoon.

I would say that from my perusal of that document, there was nothing whatsoever derogatory in it. This is also true for the information that the Committee has had presented to it so far.

[Chairman Glenn's prepared statement follows:]

PREPARED STATEMENT OF CHAIRMAN GLENN

Good morning. Today the Committee on Governmental Affairs meets to consider the nomination of Richard Gordon Darman to be the Director of the Office of Management and Budget [OMB].

And Mr. Darman, let me say that your nomination proves once again just how wrong all the so-called experts can be. After all, after last year's Presidential election, all the experts said it would be a very long time before anyone raised in Massachusetts, and educated at Harvard, would be running the Government.

But in all seriousness, and with all due respect to the Vice President-elect, I consider the OMB Director's post to be the second-most important job in the United States. I think it fair to say that OMB has amassed immense power and that Mr. Darman will have a leading role in shaping national policy.

As OMB Director, Mr. Darman, you will recommend where every single Federal dollar is spent and how each of the hundreds of Government programs are managed. You will exercise control over the regulatory apparatus of the Federal Government; most important, you will have the authority to accept or reject proposed agency regulations governing such vital matters as public health, worker safety, and enviornmental protection. And you will supervise not only what information the Government collects from the public, but also what information the Government gives to the public.

There is another dimension to this nomination that sets it apart from the nominations of your predecessors at OMB and that might very well increase the clout of OMB. I am speaking of Mr. Darman's unique skills and background. His work experience in the White House as well as in six executive branch departments makes him perhaps the most qualified individual ever to have been nominated for this position. Mr. Darman certainly has the potential to raise OMB to new heights, a fact this committee needs to consider carefully.

Because of OMB's broad authority and Mr. Darman's ingenuity and influence, the decisions he makes will help determine the course of our Nation's economic growth, prosperity, and quality of life. I am not merely talking about the next four years. Rather, decisions made in your office, Mr. Darman, may very well affect the Nation's course over the next four decades—in other words, the legacy this Government will leave for our children and our grandchildren.

The legacy we face today, created under the stewardship of the Reagan Administration, is one of unprecedented—and intensifying—budgetary and economic constraints. The Federal debt stands at almost $3 trillion, and it increases by about $400 million a day. As recently as 1982, the United States was the world's largest creditor nation; at present, our indebtedness to the rest of the world—about $500 billion—represents the largest amount owed by any single country. This adds up to a formidable accumulation of financial claims on future economic output. In other words, we are a nation living on borrowed money and borrowed time.

Unfortunately, investment in the assets needed to produce future output has not increased commensurately. Our rate of investment in businesses and plants is at a 40-year low. Our investment in the human capital necessary to enhance—let alone maintain—our productivity is insufficient. Our chronic trade deficits of upwards of $150 billion a year are a clear signal the competitiveness of the U.S. economy in the world marketplace has declined. Gone are the days of our unquestioned industrial preeminence.

It is relatively simple to assert what types of policies are necessary to reverse this course. In a phrase, we need to invest more in programs stressing education and in civilian research and development. But the difficulty is that actions like these cost money, and in the face of $100 billion budget deficits, money is hard to come by. Not only can we not spend enough to become more competitive; we can't even seem to find the money to keep pace with the rest of the world economy.

Equally important, we are now confronted with a series of budgetary crises—crises such as the savings and loans problem, the deterioration of the nuclear weapons complex, and a troubled air transport system. Today, we are told these will cost upwards of $500 billion to fix; several years ago, we didn't even know these problems existed. Who knows what new demands on the budget lurk around the corner? The point is, we do not have a contingency fund in place to take care of the existing crises, and we are not putting away dollars for the surprises the future certainly holds.

With all the talk of not wanting to raise taxes and all the debate about just what constitutes a tax, there has been insufficient attention paid to the tax implicit in the Reagan administration's policy of reckless deficit spending—the tax that will be levied on the future generations of Americans who must pay off our enormous debt. Since most of these taxpayers do not yet vote—indeed, most are not yet even born—the Reagan budget policy has been one of "taxation without representation."

It is my sincere hope that this new administration will reorient the Nation's budget deficit and debt plan in a kinder, more gentle direction. But we also need a more credible plan. The stock markets tell us that; common sense tells us that. We cannot pretend to grow out of the deficit. We've been trying that for 8 years, and it is obviously a bankrupt policy.

Mr. Darman, you have as much control as anyone over the economic legacy we leave. You will help set the tone for the budget debate, and you will help determine whether the executive and legislative branches cooperate. In these tasks, I urge you to put aside political calculation and instead consider moral obligation. I ask you to consider our children and their children.

Now, for the record, I must summarize the committee's inquiry into Mr. Darman's qualifications and integrity. I think Mr. Darman would agree that the committee's investigation has been thorough and extensive. I want to acknowledge Mr. Darman's cooperation in providing the necessary information for the committee to complete its investigation.

The committee has received from the nominee financial statements as well as detailed information on his educational background, employment record, and professional achievements. In addition, Mr. Darman has responded in writing to over 100 prehearing questions submitted by the committee concerning the duties and responsibilities of the OMB Director's position.

Copies of the biographical information and prehearing responses will be placed in the record as part of this hearing and are available upon request. And I know that will come as a great relief to those of you who weren't able to watch Dan Rather the other night. The financial statements are available for inspection by the public in the committee office.

Committee investigators have also examined the financial disclosure reports submitted by the Office of Government Ethics [OGE] to ensure that no conflicts of interest are present.

I should note at this juncture that both Mr. Darman and his wife have established separate qualified diversified blind trusts pursuant to the ethics in Government Act. These blind trusts will protect the integrity of Mr. Darman's actions as OMB Director by shielding him from any knowledge of the composition of his own—and his wife's—personal financial portfolios.

Committee staff have met with Mr. Darman and with officials of the Office of Government Ethics to review the terms and conditions of these trust agreements. I am pleased to say that everything seems to be in order and that both trusts comply with the provisions of the Ethics in Government Act. It is my understanding that on December 14, 1988, these trusts were certified by the Director of the Office of Government Ethics in concurrence with the Attorney General, as required by law.

Finally, I want to note that I have reviewed the FBI background investigation report on Mr. Darman.

I would like to close with some personal comments.

Mr. Darman, you are a welcome anachronism in this town. You have worked most of your adult life for the Government. Unlike most of your college and business school peers, you have devoted your life to public service. And unlike some of your colleagues in the Reagan administration, you have conducted your personal affairs in a exemplary fashion. To my knowledge, you have never sought private gain at the expense of your public trust.

You seem to have an old-fashioned view of Government service which I still find refreshing and for which you deserve the committee's admiration. Indeed, you are held in high regard for your intellect, ability, and devotion to public service. And, of course, everyone knows of your reputation for charm, humility, and a complete lack of ego!

All kidding aside, Mr. Darman, let me say that at a time when we don't seem to have enough good role models for our young people, I think it's fair to say that you are a role model for many young people around this town and in this Government. I congratulate you on that, I look forward to your testimony today, and—if this confirmation procedure goes the way I think it will—I look forward to working with you on the many great issues and challenges facing our Government.

Chairman GLENN. At this time, we will hear from any other Senators who wish to make statements.

Senator Roth?

OPENING STATEMENT OF SENATOR ROTH

Senator ROTH. Thank you, Mr. Chairman.

First, let me express my appreciation for your expediting this confirmation hearing, because I think we are all in agreement that it is very important that Richard Darman take office as rapidly as possible.

I, too, would like to welcome you here today, Dick Darman. I want you to know that you are surrounded by friends—but then, perhaps I should also warn you, so was General Custer.

Now, in preparing for the hearings, I am reminded of a story of a Dutchman who one day explained the red, white and blue Netherlands flag to an American friend. He said, "Our flag is symbolic of our taxes. We get 'red' when we talk about them, 'white' when we get our tax bills, and 'blue' after we pay for them."

And of course, the American nodded in complete comprehension, but then added: "I know what you mean. It is the same in the United States, only we see stars."

Now, I am not so certain that things are all that bad, especially after the successes we have had in the past 8 years, with the help of Dick Darman, to temper the tyrant of taxation. But I would also like to believe we have only begun. A lot can be said of 74 months of economic expansion; of the longest peacetime recovery in the history of our great Nation under the watch of President Reagan and Vice President Bush.

But quite frankly, little will remain to be enjoyed, and the full impact lost if we fail to build on that recovery. That is why I so whole-heartedly agree with our President-elect. In fact, where Teddy Roosevelt became known for "speaking softly and carrying a big stick", I would like George Bush to be known for his lips by a trusting Nation that read, "No new taxes" and got no new taxes.

At a time when global competition beckons us to the gameboard with dynamic and rising countries like some in Europe and many on the Rim of Asia, it is very important that the purpose of our economic policy remain economic growth; to become more competitive in the emerging global economy. And to continue economic growth, I cannot emphasize too much that it is important that we adopt policies that improve private savings and investment—and I emphasize "private" or individual savings.

At the same time, reducing the deficit must be a top priority as a further means of increasing our savings and national investment.

Certainly, there are new domestic needs, especially as our society prepares to enter a new decade—indeed, a new century. There will be new demands on our budget. But as we meet the needs of the Nineties, we must have the courage to eliminate the needless and ineffective programs in spending that drain our budget now. Well-organized priorities will spell the difference between budget balance and budget bankruptcy.

I am not suggesting there are easy answers. Even the "flexible freeze" requires hard choices. And we must work together for innovative and positive ideas. But then again, that is what we were elected to do.

To this end, I am very confident of what Mr. Darman can and will do. As a brilliant and proven administrator with an uncanny knack at negotiation, he will be able to implement the promise of the Bush Administration and keep the recovery rolling.

He understands as well as anyone that our great Nation has increased its Federal revenue over 76 percent between 1980 and 1988; that in the next 5 years, another $370 billion will be added to our revenue base under current law. I think President Bush has spoken of a "flexible freeze", let the recovery continue and let us work out of the deficit, not by over-taxing, but by limiting spending.

This is your charge, Dick Darman. I know you have accepted it, I know you believe in it, and most importantly, I know you can do it. Good luck.

Chairman GLENN. Thank you, Senator Roth.

Senator Levin?

OPENING STATEMENT OF SENATOR LEVIN

Senator LEVIN. Thank you, Mr. Chairman.

First let me join the Chairman and Senator Roth in welcoming you here today, commending you on your cooperation with the Committee in your pre-hearing questions which you have answered, and also for your creation of those qualified, diversified blind trusts. That is going to help create some important credibility here, and I hope your other colleagues will do the same thing in the Cabinet.

The Federal deficit track record of the 1980s brings Mr. Darman before this Committee with a personal challenge as well as a policy challenge. These are challenges which cannot be met by definitional gymnastics or papier-mache budgeting. Those have already been tried, and they have failed, for good reason.

What we seek today from Mr. Darman are assurances that these mistakes of the past will not be repeated. What we seek from him are assurances that he will be straight with the Congress and straight with the American people. Half-truths or barely-truths are not the foundation upon which to build legislative strategies or enduring policies.

What we seek from Mr. Darman are assurances that he will present to the President, the public and the Congress the facts as he sees them so that we can make fully-informed decisions.

"Alice-in-Wonderland" may be fine literature, but it is a prescription for budgetary disaster. "Read my lips" may be great dialogue for a movie, but I have serious doubts as to whether it can lead to a productive dialogue between both ends of Pennsylvania Avenue on meeting the challenges facing the Nation.

And the challenges before this Nation are daunting. The budget and trade deficits, the savings and loan crisis, the clean-up of nuclear and other hazardous wastes, the quality and affordability of health and child care, and the plague of drugs are among the issues that will demand the new Administration's immediate attention.

The Office of Management and Budget will be at the center of the decisionmaking on how to allocate our Nation's resources to meet these challenges. Its new Director will have the burden of knowing that his decisions on these issues will affect not only how the legislative game plan will play out over the coming weeks and months, but more importantly, as our Chairman said, the quality of life of generations yet to be born.

One final note. In preparation for these hearings, I read portions of David Stockman's book. I was struck by his misguided persistence—even after he had serious doubts about whether his budget plans and economic theory upon which they were based were workable. It reminded me of the line from "Antigone" which I think all of us involved in the budget process would be wise to remember. To paraphrase Sophocles: All people make mistakes, but a good person yields when he knows his course is wrong, and he repairs the evil. The only sin is pride.

Mr. Darman, I wish you the best on your new undertaking. You are going to need the help of a bipartisan Congress, and I think we all pledge to work with you to address those daunting challenges, and particularly this unyielding budget deficit which this Nation faces.

Chairman GLENN. Thank you, Senator Levin.

Senator Stevens—and I would add, before he makes any statement he wishes to make, that during these opening remarks here, we will go in the order of people seated here. During our questioning period later, we have a Committee "early bird" rule, in which those who show up at the opening gavel are taken in their order of seniority, both sides. Beyond that, we take people under the "early bird" rule in the order in which they came to the Committee hearing.

Senator Stevens?

Senator **Stevens**. Thank you, Mr. Chairman.

I am pleased to be here to welcome my good friend. We all know him from his vast years of service here in Washington. I think the President-elect has made a good selection for the Office of Management and Budget.

I have no speeches to make. The Vice President made the speeches I believed in before the election.

Thank you very much.

Chairman **Glenn**. Thank you.

Senator Sasser?

OPENING STATEMENT OF SENATOR SASSER

Senator **Sasser**. Thank you very much, Mr. Chairman.

I want to welcome Richard Darman this morning before the Committee. Dick Darman comes before us today as a man with an outstanding academic record, a graduate of Harvard College, a graduate of Harvard Business School, a professor at the Kennedy School at Harvard, a Trustee at the Brookings. Looking down his biographical data, I even found he is a member of the Trilateral Commission, of all things.

We are indeed fortunate to have a man of Richard Darman's caliber coming before us today to take on the all-important task of running the Office of Management and Budget. He brings with him almost two decades of experience in Government, and I think Mr. Darman probably brings with him an enormous amount of knowledge which, if used correctly, can be a great help to this country at a time of need.

Mr. Darman, I think, Mr. Chairman, knows the score. Now, you have laid out, I think, in great detail and, I think, very accurately, the challenges that face this country in the area of fiscal policy, the economic challenges, the competition we have from abroad in the field of trade. It is my view that we are now at a fork in the road, and we need to make a determination about which way we are going to go. We can continue to go down the road of gridlock between the Administration and Congress on the question of fiscal policy, on budgetary priorities, and let the deficit continue to consume us. Or we can look at this whole, great, gigantic problem, in an air of bipartisan cooperation, and try to glean from that a solution to this problem that is facing us.

Frankly, I look forward to working with Richard Darman. I think he is going to bring some new insights to this whole problem. He comes to us not as an ideologue, but one who I think knows the problems that face Government and one that can offer some solutions.

Mr. Chairman, I have a prepared statement which I would like to include in the record.

Chairman **Glenn**. Without objection, so ordered.

[Prepared statement of Senator Sasser follows:]

Prepared Statement of Senator Sasser

Today, I join members of the Governmental Affairs Committee and Senators Robb and Warner in welcoming Richard Darman, the President-elect's nominee to be Director of the Office of Management and Budget.

I think it is fitting that we should hold this hearing at such an early date—indeed one day before President-elect Bush's inauguration.

The first order of business in the new Administration should be to get our fiscal house in order. To do that, we clearly need a strong Director of the Office of Management and Budget who can direct President-elect Bush's deficit reduction program. Richard Darman is such a man.

I have heard from the people throughout the State of Tennessee and his nation—textile workers and teachers, senior citizens and students—who tell me that restoring faith in this nation's financial future is our first and foremost priority.

They say that the Administration and Congress, Democrats and Republicans—must work together to reduce these deficits. They know that the $170 billion we spend to pay the interest on the Federal debt could be much better spent for drug education and prevention, a cleaner environment, and adequate and affordable health care.

The American people realize that if we are unable to accomplish this mandate, they might be a victim of a future next recession, they might not be able to purchase their first house, and they might not be able to afford a college education for their children.

Genuine deficit reduction must be the principle mandate for the new Administration and the 101st Congress. And, surely the consensus in this room today must be to put partisanship aside and work together for honest, constructive and responsible budget policies.

Dick Darman comes before this Committee today with an outstanding academic record and a distinguished career in public service. Throughout his service to this country, he has approached each task with integrity and intelligence.

As a native of North Carolina and a graduate of Harvard College and Harvard Business School, he has served with distinction in several major posts at the White House, Department of Commerce, and most recently as Deputy Treasury Secretary. He has twice been confirmed by the Senate. I am confident that his nomination will be well received by this Committee.

Mr. Darman, both you and I know the dimensions of this deficit debate.

We must end the fiscal drag that the Federal budget deficit can have on future economic growth. We must work for an economic recovery that is fueled by a strong domestic savings rate and not by overdependence on foreign capital. And, we must have a deficit reduction program that is balanced and fair in nature and does not single out any part of the budget for a disproportionate fiscal sacrifice.

And, we must do all these things on a bipartisan basis.

We are at a fork in the road. We could return to the path of the early 1980s when the budget debate was marked by political gridlock between the Administration and the Congress.

Or, can we move forth with an open and frank dialogue that seeks a bipartisan solution to our budget problems.

Mr. Darman, you have been selected to be the President's chief economic adviser. Your advice to the President on budget matters will in large measure determine whether we approach the deficit problem in a spirit of agreement or confrontation.

I urge you to have President-elect Bush send us *his* full and complete budget as soon as possible. In that way, he and you will help provide the country with the leadership it needs in curbing the budget deficit.

The country deserves such leadership.

Chairman **Glenn**. Senator Cohen?

Senator **Cohen**. Thank you, Mr. Chairman.

I have no questions other than commenting on my good friend from Michigan's reading activities. I am pleased to see he is going back to read Antigone and others. Sophocles also indicated that one may actually have to rip out one's eyes before he could see, and that is not something I would advocate for you, Mr. Darman.

Thank you very much, Mr. Chairman.

Chairman GLENN. Thank you.
Senator Bingaman?

OPENING STATEMENT OF SENATOR BINGAMAN

Senator BINGAMAN. Thank you, Mr. Chairman.

Mr. Darman, I welcome you, and like the others, I commend you for your past public service. I will, in the question period, ask you to comment on the very real dilemma which you face, which I know you understand well. Many see the deficit as our most serious problem, and I see it as a very serious problem, but I think the low growth in productivity is perhaps an even greater and longer-term challenge that we face. How we make the necessary investment to increase that productivity and still deal with the deficit is, I think, the key issue that you face. I hope we can discuss this in the question-and-answer period.

Thank you very much.

[Senator Bingaman's prepared statement follows:]

PREPARED STATEMENT OF SENATOR BINGAMAN

Thank you Mr. Chairman. Let me first join with the Chairman and Ranking Minority member, Mr. Roth, and all my colleagues in welcoming Mr. Darman here today. Let me also congratulate the Chairman and his staff for the thorough work they have done in preparing for this early hearing and say that I join with Senator Glenn in his commitment to vigorous oversight over OMB.

I personally applaud Mr. Darman's commitment to public service. He has had an impressive record of public service serving in several administrations and in a number of agencies and capacities. He is now taking one of the most important, difficult and powerful jobs in the federal government, the Director of OMB.

It seems to always be an office in transition and I looked forward to learning more about Mr. Darman's plans for the office.

We have been blessed with a record economic expansion but the national economy is now moving in reverse in my opinion: from a high-wage, high-growth, manufacturing economy in the 1960's to a low-wage, low-growth, service economy in the 1980's.

America's economic growth rate this decade is less than half what it was during the sixties and lower than it was in the 70's. Real wages are lower now than fifteen years ago.

We need to get our economic house in order: we need to cut the federal budget deficit and the trade deficit.

If the economy had grown in the 1970's and the 1980's at the 1960's rate, we wouldn't have a budget deficit, we would have a surplus.

But the economy did not grow.

Until we get the economy growing faster, we have to cut the current deficit without cutting investment in future growth. Not an easy thing to do. But something we have to do.

I think we all would like to hear more of Mr. Darman's plans in this critical area.

We also look forward to a partnership with Congress in working on these problems. Some might be justified in feeling the Directorship of OMB has become too politicized lately and others feel it has become too heavily involved with the budget process at the expense of management. These are both critical issues and I hope bipartisanship will prevail in the coming months and years.

As we attempt to deal with our domestic deficit, problems we need to be concerned with all of those problems we face today, the problems of educating our children, of child care, or providing health care, of meeting the needs of the elderly, of maintaining our national security and of reversing our downward slide in the international marketplace. It will be a huge challenge to find the financial resources to meet these domestic and international challenges, but we must find the proper balances.

I am particularly concerned with finding the resources to promote our competitiveness. Reducing our domestic deficit will help to reduce the trade deficit but we need to encourage more exporting and more strategic spending to promote spending in areas of trade, scientific and technical advancement, and human resource assistance. Federal spending for research and development, action to promote increases in productivity, and enhanced savings rates are absolutely critical to our nation right now.

I look forward to working with Mr. Darman in each of these areas and I look forward to productive action in reversing some of these downward trneds I have mentioned.

Chairman GLENN. Thank you.

Senator Rudman?

Senator RUDMAN. Thank you, Mr. Chairman.

I am just looking forward to hearing from Mr. Darman, and I will wait for that.

Chairman GLENN. Senator Kohl, is one of our new members on the Committee. We are glad to have him with us. He was an expert in yesterday's hearing his first, questioning some of the people from GAO. We welcomed your participation yesterday and, Herb, welcome to the Committee.

OPENING STATEMENT OF SENATOR KOHL

Senator KOHL. Thank you, Mr. Chairman.

I am very pleased to be here today. I had an opportunity, like the rest of the Committee, to meet with Mr. Darman prior to today's hearing. I found him to be a really intelligent fellow, very broad-minded, very flexible. I got the very strong feeling that Mr. Darman wants to work in a bipartisan way with the Members of this Committee and Congress, to fashion the kind of a program that will be in the best interests of our country. I was very encouraged with our meeting. I look forward to today, and I am looking forward to working with you, Mr. Darman.

Chairman GLENN. Thank you very much.

Senator Wilson, also coming as a new member of this Committee, although he has been around the Senate; we work closely with him on the Armed Services Committee and a lot of other work here.

Pete, I didn't have a chance to say this yesterday, but welcome to the Committee, and we look forward to any comments you wish to make.

OPENING STATEMENT OF SENATOR WILSON

Senator WILSON. Thank you, Mr. Chairman.

I am delighted to be a new Member of this Committee, and particularly pleased to have the opportunity to be among those who will be able to pursue with questions the rather remarkable response that Mr. Darman has made to the Chairman's extensive questionnaire. I commend you, Mr. Chairman, for holding this hearing in such a timely fashion, and I commend the thoroughness both of the questions asked and the response made by Mr. Darman. I think that perhaps this sets a fascinating precedent.

I can think of very few confirmation hearings in which so much has been revealed prior to the commencement of the hearing, and so much that is truly relevant to, as several have described it, the daunting task faced by Mr. Darman.

I will put into the record a statement. I will only say that I am particularly interested in the responses that Mr. Darman has made with respect to the use of capital budgets, which I think is something which, if not entirely new to the Federal Government, has not begun to receive the kind of attention which apparently he intends to pay it. I would be interested in whether or not his views take him to the point that he thinks that some of the trust accounts should be taken off-budget. I think there is argument in favor of that, but clearly, this is a tactic that would aggravate the deficit.

I would also say that I think that he, as has been observed, comes not only superbly prepared, but also, the experience that many of us have had in dealing with him, I think, is what has given rise to these expressions of confidence. And I will not take longer, but will simply join in that swelling chorus of praise—it is not a Greek chorus, I don't think, Mr. Darman—and perhaps, to carry Mr. Cohen's admonition further, perhaps, to modernize that tragic advice, one should stuff his ears before being able to hear. You may have felt that way already.

Thank you, Mr. Chairman.

[Senator Wilson's prepared statement follows]

PREPARED STATEMENT OF SENATOR WILSON

Mr. Chairman: I am pleased to be here today, as a new member of this distinguished Committee. As a former Mayor, I hold a deep interest in how the Legislative Branch in general, and the Senate in particular, believes the different components of our federal system should operate. I look forward to participating in this Committee's deliberations as we attempt to make the federal government operate more efficiently in its relationship with other parts of our federal system.

However, Mr. Chairman, no federal government operations will occur without passage of a federal budget. Therefore, I am very happy that today's hearing to confirm President-elect Bush's nominee to head the Office of Management and Budget, Mr. Richard G. Darman, is taking place in an expedited manner. The Congress has no higher priority than to approve a federal budget for Fiscal Year 1990 which meets the Gramm-Rudman-Hollings deficit targets without the use of smoke and mirrors, without new taxes, and without resorting to sequestration.

This goal will not be easy to reach. I should note, though, that George Bush was elected in no small part to his stand against new taxes. President Reagan has submitted his budget proposal, which no doubt will be changed in some respects by the President-elect. However, it is up to the Congress to respond to the President's proposal by coming up with budget of our own. The President's budget proposal, and no doubt the President-elect's will reach the deficit target without increasing taxes. Certainly, the Congress should do the same.

I was very interested in reading Mr. Darman's responses to the Chairman's questions regarding the budget process. I am glad to see that Mr. Darman supports the establishment of a biennial budget process. All of us in the Senate were proud that we finished the FY89 Appropriations bills on time, and the 1987 budget summit's insistence on a two-year budget outline was crucial to that accomplishment.

However, I look forward to questioning Mr. Darman about his views on the unified budget concept, and its relationship with taking trust funds off-budget. In his response to the Chairman, Mr. Darman wrote that he is interested in "exploring ways to make capital budgeting more useful." As a former Mayor who believes strongly in the use of capital budgets for planning purposes, especially in the area of infrastructure improvement, I believe that such trust funds should be taken off-budget, and not allowed to be counted against the unified budget's operating deficit.

Overall, Mr. Chairman, I believe that this confirmation hearing will provide the Congress with a good sense of the direction that the Bush Administration plans to take with regard to budget priorities. I have faith in the President-elect's promise not to raise taxes; I look forward to a bipartisan approach to deficit reduction, and I hope that Mr. Darman will lead the way.

Thank you, Mr. Chairman.

Chairman GLENN. Thank you, Senator Wilson.

Another new member of the Committee is Senator Lieberman, who did an excellent job in our hearing yesterday. We welcome you to the Committee again today, and will be pleased to hear any statement you wish to make.

OPENING STATEMENT OF SENATOR LIEBERMAN

Senator **Lieberman**. Thank you, Senator Glenn.

I thank you, Mr. Chairman. It is an honor to serve on this Committee, and may I say personally what an honor it is to serve under your leadership, because of the great respect that I, and all of America, have for you.

As you know, Mr. Darman, we have had the pleasure to talk. I must say that as a newcomer to Washington, I am struck even more than I was before I arrived here by the obvious fact that these are not easy times to be in Government in Washington, because of the overriding burden of the Federal budget deficit. But they are clearly very important times to be in power here because of the threat that that budget deficit represents not only to our economic security, but in a very real sense to our national security as well. We will not remain a great Nation if we continue to incur the debts that we have been running.

As a newcomer, I take some special sense of comfort in realizing that President-elect Bush has asked you, not a newcomer, a seasoned hand at Government, to lead us and America, hopefully, to a more secure ground in dealing with our economic problems.

If I may cite a more contemporary source than the Greeks that have been cited, I am thinking of that line from Robert Penn Warren's "All the King's Men," in which Willie Stark, the central figure, says to a reporter who is arguing with him about Government: "One thing I know and you don't is how to make the mare go. I know how to make the mare go."

I have the feeling, and certainly the hope, that you are someone who knows how to make this "mare" of American Government go.

Mr. Chairman, I have a statement that I would ask be entered into the record. I do not need to go into it at this time.

Chairman **Glenn**. Without objection, it will be included.

Senator **Lieberman**. I look forward in the time that I have for questioning to pursue some of the lines of inquiry that I mention in that statement.

Thank you very much.

[Prepared statement of Senator Lieberman follows:]

Prepared Statement of Senator Lieberman

As a newcomer to Washington, I have been struck most by the enormity of the budget deficit and the paralysis it has created in our government. I would like to share a few of my initial reactions to the budget dilemma with you, Mr. Darman, since you will be—assuming your confirmation as Director of OMB—the official with the greatest responsibility for leading us out of this crisis.

The numbers themselves are staggering. The reported deficit for fiscal year 1988 was $155 billion, and this figure masks the full extent of the problem. As you know, a $97 billion surplus in single-purpose trust funds is included in this calculation. When it is removed, the real deficit becomes apparent—a $252 billion shortfall in all-purpose funds. The picture for 1990 offers little improvement. The Congressional Budget Office, based on its review of the budget submitted by OMB, projects a $141 billion deficit for fiscal year 1990. Since this figure also includes the single-purpose Social Security Trust Fund surplus, the real deficit for 1990 will be over $200 billion.

As bad as these numbers are, they do not convey the full extent of the problem. Critical problems that are not currently funded can no longer be ignored by OMB.

Bailing out failing savings and loan associations will cost some $85 billion, according to GAO. Another $100 to $150 billion will be required to clean up hazardous radioactive waste at our nuclear weapons production plants. At a hearing before this Committee yesterday, GAO representatives made it clear that they have not yet been able even to estimate the significant cost overruns in Department of Defense weapon systems.

Put it all together, and it means our nation's strength—and ultimately our security and our future—is at risk. Money borrowed by the government goes not into productive investments that will yield benefits down the road, but merely into financing ongoing consumption. This, in turn, has led to a serious decline in national savings, which we use to finance our future economic growth—the economy our children will inherit. In the 1980's, our national level of public and private savings is down 1.8%.

Mr. Darman, we need leadership to attack these problems, and we need it from you. Optimistic projections for the future will not make the deficits disappear, and we cannot afford to wait for years in the hope that we will "grow" out of the problem. OMB also must play a far more rigorous role in improving the efficiency of the federal government. In a time of severe budget constraints, greater efficiency is one of the few avenues for preserving and creating desparately needed federal funds. For example, OMB should play a central role in monitoring and managing the major cost overruns we are facing in the defense sector.

We all can agree on the seriousness of the problem and, with some allowance for differing projections, we can agree on its dimensions. But I see great potential for disagreement when it comes to allocating those precious dollars we have to spend. I see that potential just by examining the one budget proposal we have before us, the budget submitted by the Administration last week. In a period of scarce federal dollars, we must not lose sight of our important priorities. I am concerned that the priorities in the Administration's budget are in disarray. Let me discuss three areas of particular concern.

The Environmental Protection Agency is entrusted with one of the most crucial functions of the federal government—preserving, and in too many cases, restoring, a healthy place for Americans to live. During the last decade, we have dramatically increased EPA's statutory responsibilities. Existing environmental legislation was amended to cover toxic substances in the late 1970's, for implementation in the 1980's, and the 1984 Amendments to the Clean Water Act, the 1986 Safe Drinking Water Act Amendments, the 1984 Asbestos in Schools Hazard Abatement Act, and the Hazardous and Solid Waste Amendments of 1984 further expanded EPA's responsibilities. While virtually doubling EPA's workload, we have made no attempt to provide the agency with a commensurate budget. Indeed, in constant 1981 dollars, EPA's proposed 1990 operating budget ($1.259 billion) is less than its 1981 operating budget ($1.351 billion). I am deeply concerned about quitely sacrificing the prospects of a healthy environment for our children while addressing the deficit problems.

Nor can we delude ourselves about the growing problems of the homeless. As many as 3 million people are homeless in this country, and 30 percent to 40 percent of them are families with children. One million families are on waiting lists for public housing. In my own state of Connecticut, an estimated 3,000 people a night are homeless, and up to 30 percent of these are families. Despite the magnitude of the problem, the budget for housing programs for fiscal year 1990 proposes to fund only 2,000 single-room occupancy units for the homeless and only 400 units for the homeless who are mentally ill. This would leave nearly all of the 3 million homeless, and all of the families, without homes. The total proposed budget for assisted housing programs is $6.3 billion, down from $7.1 billion in 1989.

We are not only failing to assist Americans who are currently homeless, we are failing to ensure that our existing housing stock remains habitable. According to the Department of Housing and Urban Development, it will cost $20 billion to repair our public housing so that it meets basic structural and sanitary requirements. The longer we delay these repairs, the greater the cost.

I am also deeply concerned about cutbacks in funds for criminal justice assistance to local authorities. The 1990 budget requests $96 million for this assistance, $223 million less than the 1989 funding. No funds are requested for the anti-drug abuse program, which assists state and local governments in their fight against drugs. In my own state, federal funds against drugs. In my own state, federal funds received in October 1987 enabled Connecticut to hire 5 additional prosecutors and 4 clerical assistants. From October 1987 to June 1988, these prosecutors alone accounted for 320 prosecutions and 305 convictions. The war on drugs simply cannot be waged effectively without federal assistance.

We can all agree on the challenge before us, but let us also agree that the task of OMB is to help us meet this challenge in a realistic way that does not ignore real world problems that need real money to solve them. How we go about addressing these problems while we seek to close the budget gap forms the crux of the dilemma we face, and I am anxious to hear your own views on this matter.

Chairman GLENN. It would be the intention of the Chair to run the hearing today from our starting time up until 12:30. If we have not finished by that time, which I anticipate we will not, we will break until 2, and then run from 2 until 4; and if we have not finished by then, it will spill over until Monday. I hope we can avoid that, and I am sure Mr. Darman would prefer to finish today. But we also know that there are limits on the time Senators can spend here, as well as Mr. Darman's own time—he would probably prefer to run until midnight tonight to get it finished in one day. But it would be my intent to run until 4, and if we have not finished by then, we will go over until Monday, since tomorrow is Inauguration Day.

Mr. Darman, Committee rules require that the nominee be under oath while testifying, so if you will stand and take the oath.

Do you swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. DARMAN. I do.

Chairman GLENN. Do you have a prepared statement that you would like to make or be entered in the record—in either event, would you like to give an abridged version of your statement or whatever will be entered in the record?

Mr. DARMAN. Mr. Chairman, I have a very brief opening statement, which I would prefer to read, if I could. It will take about a minute.

Chairman GLENN. That is good. Proceed.

TESTIMONY OF RICHARD G. DARMAN, NOMINEE TO BE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. DARMAN. Thank you very much, Mr. Chairman, Senator Roth, and distinguished Members of the Committee, for your kind words about me personally and for the opportunity to be before you today. It is an honor to appear before you and this distinguished Committee.

May I please say a word of thanks to Virginia's fine Senators, Senator Warner and Senator Robb. Virginia is fortunate in having such distinguished and accomplished public servants representing the State, and that good fortune has also been my own in having them so kindly available to introduce me to this Committee.

It was my privilege, as Senator Warner noted, first to work with him 16 or 17 years ago at the Defense Department; 4 years ago, he was kind enough to introduce me to the Senate when I was confirmed as Deputy Secretary of the Treasury; and I am delighted to learn that my conduct in the intervening years seems not to have discouraged him totally from one more try on my behalf.

With respect to Senator Robb, I am also delighted at his willingness to introduce me. He has lived just downstream from our family for the past decade and a half, and that, of course, is viewed by some as the ultimate test.

More seriously, let me say how pleased I am not only to have such extraordinary Senators, but also to note that chance has brought them together today as Republican and Democrat. Like you, Mr. Chairman, I should like to interpret that as a hopeful omen, for clearly, our budgetary problems can only be addressed responsibly if we come together on a bipartisan basis.

Mr. Chairman and distinguished Members of the Committee, may I also take this opportunity to thank you for your willingness to consider my nomination expeditiously, while at the same time I commend you and your staff for the seriousness of your prior inquiry and analytic work. Meaning no disrespect to the seriousness of prior inquiry in my previous confirmations, I can say that your Committee has been in a class by itself.

Finally, Mr. Chairman, please let me say a few words, briefly, about the office for which I am being considered. These are times when the issues facing a Director of OMB are viewed by many as central. That is, of course, the view with respect to the deficit—and understandably so. The deficit must be reduced. We must end the game of "Wonderland" politics, where "cuts" are increases, and going "down" means going up.

But I feel obliged to note that the deficit seems to me to be a symptom of a more basic problem. Our time horizon seems to have shrunk. We are underattending to the future. We need to lengthen our perspective.

Americans rightly wish to keep our special Nation number one, but to do so, we must keep America growing. We must increase savings and investment, increase productivity, and renew our pioneering spirit. These are inescapable requirements if we are to keep America a strong and shining beacon of hope.

To the extent that OMB were to help move us toward more effective pursuit of these broad goals, I would feel that we were better attending to our more basic responsibility.

Again, Mr. Chairman, and distinguished Members of the Committee, I thank you for your consideration, and I would be pleased to try to respond to your questions.

Thank you.

Chairman GLENN. Thank you very much.

I would note, too, that all the questions you answered in our prehearing request will be entered in the record and will be part of it. Those can take the place of what might have been a very lengthy opening statement which you may have felt required to make.

Before I turn to other questions, I have three questions the Committee requires me to ask of you.

Number one, do you know of any reason, personal or otherwise, that would in any way prevent you from fully and honorably discharging the responsibilities of Director of the Office of Management and Budget?

Mr. DARMAN. No, I do not, sir.

Chairman GLENN. The second question: Is there anything you are aware of in your background which might present a conflict of interest with the duties of your office?

Mr. DARMAN. There is nothing in my background that would present a legal conflict of interest. That is the opinion of the Department of Justice, the Office of Government Ethics, the legal counsel at OMB.

I have, however, Mr. Chairman, in response to your Committee's formal questionnaire, indicated my intention—it is a matter of personal volition; I do not believe it is legally required—my intention to recuse myself in a specified set of cases where I have had prior association with certain firms or institutions. I have no continuing financial relationship or any other relationship with these firms or institutions; however, I believe there might be the potential for a problem of appearance in these cases, and I have identified them to the Committee, and I believe they will be entered in the record. With respect to those, I would recuse myself in the manner I have stated in response to your questions.

But as to a legal conflict, no.

Chairman GLENN. Thank you.

I have here a copy of the recusal agreement to which Mr. Darman indicated he has voluntarily agreed to. We did not request this, we did not require it; he voluntarily listed these areas in which he felt it would be appropriate for him to recuse himself if there were ever a potential for conflict of interest.

I will enter these in the record. They will be part of the public record. Mr. Darman, all we would ask is your commitment to have the OMB Ethics Officer notify the Committee in the unlikely event that any of these recusal agreements would have to be implemented.

Mr. DARMAN. Yes, sir.

Chairman GLENN. That will be entered into the record without objection.[1]

The third question is: Do you agree without reservation to respond to any reasonable summons to appear and testify before any duly-constituted Committee of Congress if you are confirmed?

Mr. DARMAN. Yes, I do, Mr. Chairman, although I must do so subject to whatever might be the ordinary conflict between the Executive and the Legislature on the definition of "reasonable" as it might be affected by arguments concerning Executive privilege. But that is a rather legalistic protection of myself. My basic orientation is to respond simply yes.

Chairman GLENN. Good. Thank you very much.

Those are questions that are required by the Committee. We will start the Members' personal questioning now. Our timing will start on these, and our ten-minute rule will be followed.

Before we start the timing on this, staff reminds me once again of their appreciation for your responsiveness to their inquiries. They were very prompt. I wish, as I said earlier, that we had all nominees cooperating to the same extent that you have with this Committee. I hope you are setting a model for the new Administration in that regard.

Mr. DARMAN. Mr. Chairman, if I could interrupt, I am sure some may wonder what these books are that I have here, and they are merely the responses I have provided to the Committee staff; in case questions were to arise, I thought I should have them available.

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[1] See p. 171.

Thank you.

Chairman **GLENN**. There is one other question I am required to ask with regard to all this information you have given, and that is: Are the responses to these questions your own?

Mr. **DARMAN**. The responses to all of the questions of a biographical nature, or a nature involving financial matters, are my own, with the exception of certain financial matters to which I had been blinded. In those cases, information was provided directly by counsel on the basis of an agreement worked out with your staff.

With respect to the substantive questions, in some cases, initial factual material was given to me by staff at OMB; I then edited it. So to the extent that there was a staff contribution before I edited it, they are not exclusively my own. But I take full responsibility for all of the answers.

Chairman **GLENN**. As far as the information given the Committee, though, you stand behind them as your personal statements, whether they were prepared by you originally or not.

Mr. **DARMAN**. Yes, I do.

Chairman **GLENN**. Thank you.

Now we start the personal questioning time.

Mr. Darman, as you might expect, my lead-off question is going to be in the area of taxes. We have had some reporting on that in the press over the past weekend. The Committee asked in pre-hearing questions whether you thought several proposed revenue options were tax increases. Now the President-elect, who will be our President as of tomorrow, said, read his lips, no taxes. We might say that in your response here we are having a little bit of trouble reading your lips on the interpretation of what is a tax and what is not.

A gasoline tax might, you said, be considered a user fees, as might alcohol and tobacco excises. Regarding the elimination of the deduction for interest payments and taxation of employer-provided fringe benefits, they might in some cases be considered as definitional changes rather than new taxes. Oil import fees might be construed as a tariff.

You conclude your answer by noting that, "One could engage in long discussions of when one or another measure is or is not a tax." Then you state that, "Putting academics and sophistry aside, the old 'if it looks like a duck' rule, that if it is a tax, to most Americans, it is a tax." I certainly agree with that last one there.

Whether we are raising revenue, but they are not taxes; whether user fees, when they replace general revenue, are perceived by the public as taxes or as something else; whether a definitional change as applied to interest and deductions that might be applied to a family tax return; whether an oil import fee is a tax or a tariff—can you expand on that some, so that we can know what your views are?

In other words, the new President said, "Read my lips, no new taxes"—but if we are to define taxes in strange and wondrous new ways, perhaps this is a way of avoiding what the President pledged as far as the average American is concerned.

I would welcome your clarification for us.

Mr. **Darman**. I think that the President meant "No new taxes" as it would ordinarily be understood by ordinary Americans. I think a version of that is the "duck test"—if it looks like a duck, it is a duck, to be more complete, and not quoting any ancient Greeks—but rather, Cardinal Cushing of Boston. If it looks like a duck, walks like a duck and quacks like a duck, it is a duck. That is the test, it seems to me, to be applied with respect to taxes.

If ordinary people think that what we are talking about is a tax increase, it is a tax increase, because the Vice President's statement in the course of the campaign was not just an economic statement, but a political statement, understood by most people in a very conventional way.

To take a couple from the list that you cited—a gasoline tax. I believe that I was correct and am correct in responding that technically, a gasoline tax can be described as a user fee if the purposes to which the revenue is directed relate to automobile use as, for example, through highway construction.

Indeed in the Congress, when it passed a gasoline tax increase in 1982, I think if one were to review most of the statements on the floor, one would find that most at the time described it as a user fee.

What I was trying to suggest is that it is arguably a user fee. But ordinary Americans see it as a tax increase. It is a tax increase if you apply the "duck test." Indeed, almost every one of those is a "duck."

Chairman **Glenn**. Does the new President in your view agree with your "duck test"—in other words, I agree with your "duck test"——

Mr. **Darman**. Yes, I believe he does.

Chairman **Glenn**. Well, in that case, then, I would say that we may be getting ourselves in a real straightjacket. I think the average person out there looks at it as though any time additional money is required to go from their pocket to the Federal Government, by whatever means—call it definitional, user fee, whatever, that, to them, is a tax.

Is that the same definition you, and you surmise the new President, will follow, or will agree with?

Mr. **Darman**. Generally speaking—I am not trying to be cute—but yes, I think that that is right. I think that that is the way most people would mean tax increase. Now, of course, if their income goes up, and nothing in the tax law changes, their tax payment to the Government would go up.

Chairman **Glenn**. If their income goes up, that is correct, but as far as——

Mr. **Darman**. But I do not think most Americans would view that as a tax increase in the way in which you were just suggesting they might. But subject to that qualification, I think that they would view it as you have suggested.

Chairman **Glenn**. In carrying out the new President's policies, then, it would be your intent that any time there is an increase, that it is not just an automatic thing already in law. If there is to be any increase which would require any additional money to go out of an individual's pocket to the Federal Government, it would be interpreted as a tax increase, and would be subject to the new President's interpretation of "No new taxes"?

Mr. **Darman**. There might be a minor qualification to that. In the case of some taxes which are scheduled to expire, I would think most people expect that those taxes are going to continue, and the reason for the expiration is merely to allow additional Congressional review. Take, for example, the telephone tax. I would think if people continue to pay the telephone tax, even though it is scheduled at some point to expire—if they are paying it at the same rate—that that would not be viewed as a tax increase.

Chairman **Glenn**. That would be a continuation of an existing tax. But as far as any new revenue——

Mr. **Darman**. It is a continuation—although statutorily, it really does not continue; it expires. But yes, in my terms—and I think these are conventional terms—that would be viewed as a continuation of an existing tax.

Chairman **Glenn**. But as far as any new user fees or anything similar, that would be considered by you to be a new tax.

Mr. **Darman**. No, not necessarily "any new user fee." Take, an extremely narrowly-defined user fee, one that was clearly a user fee—for example, the fee structure with respect to processing of goods coming in, customs. Properly designed, that is a user fee, and I think widely agreed to be a user fee and not viewed as a tax. So there are some user fees, I think, that ordinary people would not say are tax increases.

Chairman **Glenn**. Well, doesn't this get into the sophistry and semantics you referred to in your statement; about whether we are earmarking certain funds for certain uses?

Mr. **Darman**. Yes.

Chairman **Glenn**. We have that money going into general revenue—now, we can earmark it for something, and say it is a user fee, and should come back for highway use or waterway use or whatever it is, but it is still a matter of putting it into general revenue. I find it difficult to see how those increases which, by my definition, take more money out of an individual's pocket are not taxes.

Mr. **Darman**. I am not disagreeing with you, Senator, with respect to the ones that you just listed. There are a few—if you look in the Reagan budget, you will see a few odds and ends of user fee changes that add up to, I think about a billion dollars in the Reagan budget, and I doubt that many people would say those user fees are tax increases. But in any case, I think for the general point that I assume you are trying to make, this is almost immaterial because the amount in question is trivial.

At any point at which you get to a significant dollar amount, it is virtually guaranteed that the public will perceive it as a tax, and it will therefore flunk the "duck test".

Chairman **Glenn**. We have just introduced something new into our Washington political jargon this morning. This is going to come back as the "duck test"; you are going to hear that referred to a lot from now on, I think—and I agree with your definition of it. If it takes money out of somebody's pocket, it is a tax, whatever we call it and whatever the specified purpose or the dedicated use of it is supposed to be.

Mr. Darman, there have been numerous conflicting stories in the press about how you intend to proceed in crafting a fiscal year 1990 Bush Administration budget. I guess my next question would be: when can we expect to have that budget submitted to us, the changes to the Reagan budget?

Mr. **Darman**. Senator, if I were so fortunate as to be able to conclude today by 4, I could———

[Laughter.]

Chairman **Glenn**. Touché.

Mr. **Darman** [continuing]. I could offer you a slightly earlier date than if not.

I might just note as an aside that I am of what I think may be the old school that believes that one ought not to assume Executive authority in areas that are subject to advice and consent of the Senate until one has had the advice and consent of the Senate. So I am not in a position to exercise any authority at OMB until confirmed—or at least that is the way I construe it.

Assuming that this were to go expeditiously, I would hope that we could respond by mid-February at the latest.

Chairman **Glenn**. With all humor aside, we are very concerned about this. What we have to go on right now is the Reagan budget, with which you had something to do, but about which we are very concerned.

There are monumental unfunded parts of that budget, as I just mentioned briefly in my opening statement, and which were on the card that we had over there a little while ago—nuclear clean-up, airway modernization, on and on and on. The whole host of them literally add up over a number of years to several hundred billion dollars. We want to get on with some of those things and the current budget does not address them adequately. So we are very concerned about getting the Bush Administration budget, and we want to work with you. I truly, as a Senator and as part of this Committee, want to work very closely with you in crafting what we are going to do with this new budget. We need the first cut at it as soon as we can get it, so we can really cooperate with the new Administration.

Mr. **Darman**. We are very anxious to move quickly, too, Mr. Chairman.

Chairman **Glenn**. Thank you.

My 10 minutes is up. Senator Roth?

Senator **Roth**. Thank you, Mr. Chairman.

Mr. Darman, in the last Congress, Wendell Ford and myself introduced a bill to establish a biennial budget process, and it attracted in the Senate 32 cosponsors. We are pleased that it was unanimously approved by this Committee. I wonder what your opinion on biennial budgeting is; and if you think it is important, particularly from the standpoint that you want to take a longer look, that we move in that direction promptly.

Mr. **Darman**. I think it is highly desirable. I think you will find the Bush Administration supporting it. I think it is also difficult, not so much from the side of the Executive Branch, but from the Congressional side. And one would have to structure the process, if one were fortunate enough to get biennial budgeting, one would have to structure the process in a way—and this is not Executive

Branch business; it is Congressional—that it did not degenerate into Government by continual supplemental, which would be my only worry. In other words, if the system is too rigid, it will not be able to adapt appropriately to reality; if it leaves too much room to adapt to changing reality, it could turn out to be a fiction and nothing but a new supplemental every 2 or 3 months.

But I know you are very well aware, and have had hearings and done good work on this subject, of that particular difficulty. Assuming one could handle that difficulty responsibly which, as I say, would be a Congressional management problem more than an Executive Branch problem, there are obvious benefits, I think, and they are well-known to you and Members of the Committee, in a biennial budgeting system.

Senator ROTH. Well, I would hope that we would have your strong support in this effort. I agree there is that problem, but I think it is one that can be dealt with.

There has been a lot of talk about the importance of the deficit, and I agree with that; but I wonder if our most important problem today as a Nation is trying to become competitive in this global economy. If we are going to create the jobs for the underemployed, unemployed; and if we are going to have the resources necessary for both domestic and national security, it seems to me that the underriding problem we face today is becoming competitive.

I wonder if you agree with that; and if so, what you think should be the major steps to try to help create an environment for competitiveness and productivity.

Mr. DARMAN. I do agree with your general observation that competitiveness is an exceedingly important problem, and that although the deficit issue is itself important, as I tried to suggest in my opening statement, we have to keep in mind the more basic interests in U.S. productivity growth, competitiveness, continuing to pioneer in any number of frontiers in order to stay, as I said, number one, which is a competitive notion inherently.

It seems to me we are improving some. Manufacturing productivity has been rising. The problem from my perspective is that it is, in many cases, not rising as rapidly as the manufacturing productivity is rising among some of our key competitors.

An even bigger problem from my personal perspective is service sector productivity. Our economy really is over 60 percent service sector, and productivity growth in the service sector continues to be very low. We have got to figure out how to get that productivity up if we wish to remain competitive over the long term. We are all dependent, including manufacturers, on a more productive service sector.

There is a limited amount that can be done on the public side. I think cutting the deficit makes a contribution by reducing the negative savings, thereby increasing our savings rate, our measured savings rate. But the way in which to increase private savings is somewhat more difficult to address, at least for me. I know you have spent a lot of time over the years, Senator Roth, and I respect your work on this subject. But I am personally not yet sure that we know how to increase the private savings rate in the United States with public policy. I am inclined to think that there are cultural problems. I do not pretend to understand them, but for a great long period of our history, we were more of a savings nation than we are now.

There is, I understand, a sort of general secular decline in savings among developed nations. Exactly why this should be so, I am not sure. I have sort of "Pop" sociological hypotheses; I consider them close to worthless.

In any case, it is a matter that I think we do have to take extremely seriously. Obviously, increasing investment in research and development—especially, in my opinion, applied civilian research and development—is potentially helpful. Trying to change the time horizon of corporate executives is something I have spoken about in the past and gotten into a little bit of trouble on when I have spoken on the subject. But I do think it needs to be done.

But again, what the public sector can do directly in that regard is problematic. I do agree with you as to the importance.

Senator ROTH. Well, I think it can be fairly said that a principal reason for the success of the Pacific Basin countries has been the willingness of the individuals to save that has supplied them with the capital to invest, to have the most productive capacities in the world. So I feel very strongly that we cannot sit back and do nothing; that we have got to experiment, if nothing else, to ensure that we do have this continuing supply of private savings that will enable us to do something about productivity.

Frankly, I think we made a very, very serious mistake in the 1986 tax law when we backed off of the IRA. I can tell you, the little people back home that I talk to agree very strongly that it was a mistake. I urge you in the coming months we ought to try some measures to do something about it, because I think it is of critical importance.

Let me turn to some other questions. The Administration's forecast is projecting a moderate, 3 percent-plus, real economic growth over the next several years. At the same time, they forecast projected declining interest rates.

Now, it appears that the Federal Reserve Board believes growth rate in this range is excessive and may respond by tightening monetary policy, thus raising interest rates. How do you reconcile the Administration's forecast with the Fed's action on interest rates, and wouldn't this approach by the Fed slow the economy and increase the deficit?

Mr. DARMAN. I think that if the Federal Reserve were excessively tight for an extended period of time, it would slow the economy and increase the deficit. We had that experience in 1981-1982 and have had it at other times in our history.

I do not have reason to believe that that is the Federal Reserve's intention, however, and I would not wish in any way to be construed as being critical of the Fed at this point.

With respect to the difference as to the long-term sustainable growth rate, very respectable economists will disagree on this point—I do not include myself in that category, by the way—I would disagree, but not pass the respectability test.

Since the Fifties, we have grown at a real growth rate on average of, I think, about 3.27, 3.3 percent. So sustaining a real growth rate above 3 percent is obviously possible. There are some who tend to think it is closer to 2.5. We know what the elements are that go to analyzing that issue—the expected growth in the labor force and the expected growth in productivity. There is not too much difference about the expected growth in the labor force, and the issue really ends up turning on your guess about productivity.

I do not have a responsible guess—I do not believe anybody does. But putting that aside, I am certain that we benefit from an increase in productivity for this and many other reasons, and that gets us back to the point you were trying to make earlier. If we wish to achieve a long-term real growth rate in excess of 3 percent, we are going to have to get our productivity up. I believe that is an unequivocally desirable objective, and we should pursue it.

Senator ROTH. My time is up. Thank you, Mr. Chairman.

Chairman GLENN. Senator Levin?

Senator LEVIN. Thank you, Mr. Chairman.

First of all, Mr. Darman, before I return to the "duck farm," let me commend you on your voluntary recusal agreement.

Mr. DARMAN. Thank you, sir.

Senator LEVIN. It was not required; you initiated it, and it shows a strong sense of personal ethics, and that is very, very important in Government, and we are glad you did what you did.

Back to ducks. As I understand your testimony here this morning, if the public views something as a tax increase, it will be viewed as a tax increase within the meaning of President-elect Bush's pledge; is that correct?

Mr. DARMAN. Yes, sir.

Senator LEVIN. I would like to go through some additional items with you. We talked about this in my office at some length, but let me ask you some things for the record. You have said that a gas tax increase would be viewed as a tax increase, and as I understand your testimony today, that would be covered by the pledge; is that correct?

Mr. DARMAN. Yes, I believe it would. Indeed, I might just note that in addition to the "read my lips" statement, candidate Bush made a specific statement with respect to gas taxes.

Senator LEVIN. Would the taxation for the first time of employer-provided fringe benefits such as health insurance coverage be included?

Mr. DARMAN. I would think it would be, yes.

Senator LEVIN. And what about the elimination of the deduction for interest on a home mortgage?

Mr. DARMAN. I think that certainly would be.

Senator LEVIN. Okay. Now, in your answers to the Committee's questions for the record, you indicated that the elimination of the deduction for interest incurred as a result of certain kinds of borrowings might in some cases be considered definitional rather than a tax increase, I think your words intended.

Mr. DARMAN. Right.

Senator LEVIN. When would the elimination of the deduction for interest be definitional, and when would it be a tax increase?

Mr. DARMAN. What I was referring to was something I must confess I am not current on. But when I was at Treasury, we had under review the question of when certain kinds of debt should be construed as equity and not debt as a regulatory matter. And it was my understanding—the issue never actually came to me, but I was aware of it being under review in the Office of Tax Policy—it was my understanding that there was at least a basis for arguing that certain kinds of debt were more like equity than debt and should not be eligible for the interest rate deduction.

That, I would have considered a definitional matter, and that is what I was referring to. I was certainly not referring to some general exclusion of the deductibility of interest. Obviously, if you suddenly excluded the deductibility of interest, that would be viewed as a tax increase.

Senator **Levin**. Such as mortgage interest.

Mr. **Darman**. Certainly.

Senator **Levin**. And then, relative to another item in the questionnaire, you indicated that—this is relative to the taxation of employer-provided fringe benefits—you indicated that that might in some cases be considered a definitional change rather than a tax increase.

What did you mean by that?

Mr. **Darman**. Well, let me give you another example I was familiar with at Treasury. As you know, there are "cafeteria plans" for fringe benefits, so that there is an aggregate amount that can be subject to tax preference, but within that, you can kind of mix and match what the character of the benefits will be.

There is a lot of argument over time as to what ought to be the allowable items for mixing and matching, and in certain circumstances, I can imagine that that would be construed as a definitional change and not a tax change.

I was not trying to be cute. What I have in mind by definitional would be the kind of thing that tax lawyers would pay attention to, not the general public.

Senator **Levin**. I agree with your definition here this morning; your "duck" definition, your public understanding definition, I think, is the correct one. In my office, you gave me a different impression relative to your definition, and indicated, I believe—and I am paraphrasing—that if a revenue increase were viewed by the public as a tax increase that you would not necessarily agree that it were a tax increase, providing two things were true—one, that public policy, you felt, required that increase to take effect for whatever reason; and number two, that there was some legitimate basis for arguing that it was not a tax increase but something other than that, such as definitional or a user fee or whatever. And I thought you indicated in my office to me that you would not go along with the "duck" test if you felt that public policy required the revenue, and if you felt that a good, legitimate basis could be given to the argument that it was not a tax.

Has there been either a shift or some different thinking since then?

Mr. **Darman**. I recall our conversation; I do not recall it exactly as you do, but let me assume it was as you have stated and not quibble about that.

I would agree with what you attribute to me, that if there were an important public policy objective to be served, and if I thought it legitimate to define something not as a tax, that I might then favor it, even though there would be argument about whether it were or were not a tax. That is the view you are suggesting I had, and it is my view.

With respect to the "duck" test, however, that goes not to the question of what I would recommend as a member of the Administration within the Administration. The "duck" test is an entirely different matter. It goes to the question of how a President must deal with his own campaign commitments in relation to the public.

Senator LEVIN. Well, I must tell you I do not really see this difference—unless you are saying that you would recommend to the President something that would violate his pledge.

Mr. DARMAN. There are circumstances in which—I have offered you an interpretation of his pledge. I have not gone through the definition of "tax" with him in the way that the Committee chose to do with me. So I cannot——

Senator LEVIN. So you are not sure that he accepts the "duck" test?

Mr. DARMAN. I would strongly think he accepts the "duck" test. It seems to me to be an entirely reasonable way of looking at the matter.

Senator LEVIN. Then my question is if, in fact, he does—which I think every member of this Committee does—would you then recommend something to him which violates that test?

Mr. DARMAN. I might do so if I thought that it were appropriate to do so.

Senator LEVIN. Why would you recommend to him something which violates his pledge?

Mr. DARMAN. Because it is—let me take an extreme case. Suppose the United States went to war—which we all hope we do not do——

Senator LEVIN. Absent that.

Mr. DARMAN. Well, I am only trying to make the point that there are times when it may be responsible to make a recommendation that goes against a campaign pledge.

Senator LEVIN. Could that be a deficit which threatens our economic health?

Mr. DARMAN. Only if one were absolutely certain that that problem could not be addressed by other means, and I am not certain that it cannot be addressed by other means. Indeed, lest there be any doubt on this point, if you would allow me, I should make clear—I am not now recommending in any way to the incoming President that he violate the "duck" test, and I do not now foresee the circumstances in which I should or would do so.

Senator LEVIN. Well, we appreciate that, but had you reached a conclusion—a certain conclusion—that there was no other way to address a deficit which threatened our future economic health, would you then make such recommendation?

Mr. DARMAN. If I did reach that conclusion, I would, subject to one important qualification. I think a President's credibility is also extremely important. And I think that one should give great weight to the public policy interest in preserving a President's credibility. So I would not use exclusively the deficit as a test; I would be inclined to consider other things as well.

Senator LEVIN. Just one additional question, and that is how long is President-elect Bush's no tax increase pledge good for? How many years is it your understanding?

Mr. DARMAN. I do not know the answer to that question. I am sorry. For purposes, at least, of—as a starting position, I would say we might as well assume forever.

Senator LEVIN. You assume that?

Mr. DARMAN. I do not know that the issue ever came up. But it seems to me that, certainly, the implication is for some extended period of time.

Senator LEVIN. My time is up. Thank you.

Chairman GLENN. Senator Cohen?

Senator COHEN. Thank you, Mr. Chairman.

I might say at the beginning that when Senator Lieberman quoted from a well-known book and suggested that you may have the power to "make the mare go," you raise all sorts of expectations around this room. You may be the second-most powerful man in Washington, but I doubt if you have the power to "make the mayor go" here in this city. [Laughter.]

You also indicated in your opening statement that we need to broaden our perspective, and I believe the GAO has come to the same conclusion that we are too transfixed with short-term fixes while ignoring the long-term policies. And of course, the question is going to be how do we get from the short-term fix and stretch the long-term policy without falling into the gap called Gramm-Rudman-Hollings? And I will leave that up to my colleague, Senator Rudman, to perhaps suggest ways in which that can be done.

I would like to go back to a point that Senator Levin raised before in his opening comments, something that you are committed to, namely, is the restoration of integrity in public service. Mark Twain said, "First, get your facts straight, and then you can twist them all you want."

There is a feeling in this country, and in this city, I might add, and in this Congress, that there is a deep cynicism that prevails on the preparation of all Presidential budgets. We now no longer wait to see how long a President's budget is given credibility; not only is it dead on arrival, it is dead before arrival. And that is the kind of cynicism, I think, that has prevailed.

I raise this in the context of the education of David Stockman, as well, because Stockman in his book says, "None of us really understands what is going on with these numbers." The question I have is whether you understand what is going on with these numbers?

I am amazed how the OMB will submit budgets to us to the second and third decimal point. How do you arrive at those kinds of numbers?

Mr. DARMAN. There is a whole profession that makes its living depending upon the existence of those decimal points. I believe that macroeconomic science is not yet worthy of the name "science." Indeed, I think most well-trained quantitative microeconomists would agree—indeed, they would express a high degree of contempt for the so-called science of macroeconomics.

I do not believe the science is up to predictions that are worthy of the decimal points. The confidence level ought not to be high enough with the decimal point there to justify using it. Indeed, if one looks over the record of the Eighties, one will find that OMB in the Eighties in forecasting a year ahead the GNP has been off by an average of 2.6 percent; that CBO has been off by an average of 2.4 percent; and that the "Blue Chip" economists have been off by an average of 2.6 percent.

So their error all within .2 of each other, but none of them is within roughly 2.5 points of reality. Macroeconomists will tend to be closer to each other especially in times of significant change—closer to each other than being right. This, by the way, is not a phenomenon peculiar to the Eighties. If you look at the performance of macroeconomists after the oil shock in the mid-Seventies, it was in many cases even worse. And indeed, it is not peculiar with respect to the early Eighties, it is not peculiar to David Stockman and the incoming Reagan Administration. If you look at the outgoing Carter forecast in January 1981, it was for the next two years, GNP growth, I think it forecast approximately 4.5 percent. Reality was about minus one-half percent. In other words, they were off by 5 percent. For the same period, Stockman was off by 5.9 percent. The difference between the two of them is trivial compared to the difference between them and reality. So where we have a science that is not up to what it pretends to, we are all potential victims of excessive reliance upon that science.

From my own perspective, if it is not too burdensome, I would hope that we could begin to make presentations with multiple assumptions—as is done, for example, in forecasting Social Security, with sort of high-medium-low economic assumptions—and do the same thing with respect to the budget, because I do not think we can have confidence of a type that leads to these single point estimates, and we build in the potential for public cynicism when we step forward and say it will be 3.27 percent. It is preposterous to pretend that you could be responsible and that accurate at the same time.

Senator Cohen. Let me come back again to a point that was raised in connection with David Stockman's book. Stockman says at one point that, "the fateful decision to cover up what we knew to be the true budget numbers was made in Jim Baker's office back in 1981"—now, we know Stockman was wrong in having what George Will today calls that "misplaced certitude"—everyone knew the budget numbers were wrong, but we knew we had run up against a public policy of tax cuts at that point, so we had to change the numbers.

What we are concerned about is how do we know we are getting "uncooked books"? When the numbers are presented to us, can we rely upon the fact there is some consensus that these are in fact realistic assumptions, underlying assumptions, figures, facts, that are being presented, so we do not have that specter of somehow manipulating the figures to achieve a political goal or stated policy during a campaign? I think that is the central issue we are trying to deal with on this.

Mr. Darman. I do not know what the protection is. It is desirable to get the protection for all of us. One element is honesty in the individuals responsible for this, and this process helps in determining whether or not the people who will hold such positions have the appropriate character.

But another, as I say, is the inherent fallibility of the so-called "science," and with respect to that, the only protection that seems to me sensible is to give multiple estimates, not just single-point estimates, and have a healthy and sensible debate about the reasonableness of the range and what one should do in view of differing judgments about where reality is really likely to move.

I think it is a formula for trouble to pretend excessive certainty in areas that are at the moment highly fallible.

With respect to that particular incident in Stockman's book, I think that I am correct in recalling, if it is the same incident—would this have been around June of 1981?

Senator **Cohen**. Yes, 1981.

Mr. **Darman**. That was a meeting he did not attend.

Senator **Cohen**. Exactly. Mr. Kudlow, I think, had the memo.

Mr. **Darman**. And I have not considered him a very reliable witness on that meeting. Others have judgments about his reliability generally as a witness. But with respect to that meeting, I can tell you he was not in it. And I know the person who represented him in the meeting, and I know that that account in his book has a single hero, and coincidentally, it is the same person.

Senator **Cohen**. I believe he relied on Mr. Kudlow, as I recall, Larry Kudlow?

Mr. **Darman**. That is correct.

Senator **Cohen**. Well, let me ask you, there has been a lot of talk about this Administration being prepared to live with the Gramm-Rudman-Hollings cuts on DoD in the event that Capitol Hill is not able to agree with the Administration. Do you have a view on that as to whether the Defense Department could in fact live with the cuts that will be required under Gramm-Rudman-Hollings?

Mr. **Darman**. I do not have as well-informed a view as I would like. But I can tell you unequivocally, my entering position is that they should be prepared to take the sequester.

Senator **Cohen**. A final point, since my time is running out. According to your Darman "duck test," would a pay raise be viewed by the citizens as a tax increase or a deficit enhancement?

Mr. **Darman**. If it were fully absorbed, it might be viewed simply as a productivity-improving measure. [Laughter.]

Senator **Cohen**. There goes your credibility.

Mr. **Darman**. I am just trying to help.

Senator **Cohen**. Thank you, Mr. Chairman.

Chairman **Glenn**. Under our "early bird" rule, I think Senator Sasser came mighty close this morning; he was maybe just a tad late.

Senator Sasser, go ahead.

Senator **Sasser**. Thank you very much, Mr. Chairman.

Following up on the line of questioning—the very valuable line of questioning—that Senator Cohen took up a moment ago, it appears to me, Mr. Darman, that with the advent of Gramm-Rudman-Hollings and even before it, what we have gotten into is a numbers game. If you look back over the 8 years of the Reagan Administration, we find that they have underestimated the budget deficit on the average of in excess of $30 million.

Now, we have embarked, it seems to me, on the same program this year. We find that the Administration, in order to reach the

Gramm-Rudman-Hollings targets, is cranking in assumptions that are dubious to say the least. For example, if you want to change those targets around and lower the targets, then you crank in low interest rates and high growth rates, and that is precisely what has happened this year. We find that in the Reagan budget, we have interest rates of 6.7 percent for 90-day T-bills. Well, as a matter of fact, the interest rate yesterday on 90-day T-bills was 8.3 percent—a difference of almost a point and a half.

When you calculate that out, that would increase the budget deficit by just $17 billion just on the question of interest rates alone. Most people are predicting interest rates to go up and not go down.

We look at the growth forecast in the Reagan budget, and we see OMB as predicting 3.4 percent growth. We see CBO predicting 2.2 percent. And the "Blue Chip" consensus is 1.9 percent.

Now, I suppose my question to you is: Are we going to get what will be more of consensus or reliable predictions out of OMB with regard to interest rates and assumptions when we get a Bush budget, or are we going to stick with the old Reagan budget assumptions or economic assumptions?

Mr. **Darman**. We have not made a final determination with respect to what economic assumptions to use. But my very strong suspicion is that we would at this stage stick with the Reagan assumptions—I will come to the point of your criticism of them in a minute—and probably not do any revision until the normally-scheduled time, which would be in June–July.

Consistent with the point I made earlier about the inappropriateness of making adjustments beyond the decimal point, I am not saying that beyond the decimal point is not important, I am just saying that predicting it reliably is extraordinarily difficult. It would seem to me to be inconsistent for me to say we ought to change a 3.3 to a 3.1; we ought to make modest little changes. Now, it may well be that we decide to do that. I do not think we will.

But if we do decide to make modest little changes, I can promise you I will have no more confidence in those numbers than I have in the numbers on the table at the moment, and I will not pretend to having any more confidence in those numbers than the numbers that are now on the table.

Let me just go back, if I might, to your point. You are certainly right about the estimates having been wrong on the deficit—but estimates have also been wrong on interest rates. If you go back and look at the early estimates in the early Eighties, when a rosy scenario was put forward on interest rates, nobody predicted that inflation and interest rates would come down anywhere near the degree that they actually have. So there is a case where things turned out to be somewhat more favorable than forecast.

In the last few years, CBO and OMB have been quite close; on some numbers, OMB has been a little bit better, and on other numbers, CBO has been a little bit better.

Take the current services deficit forecast, with which you are so familiar at the moment. CBO and OMB are not all that far off. Indeed, the interesting thing—I mean, interesting to maybe three people on earth, but it is interesting to me——[Laughter.]

Is that CBO actually estimates higher revenues by $11 billion than OMB does. Now, in the past, OMB has been accused of being rosy on the revenue numbers. Now, CBO is ahead of OMB on that. CBO is in the other direction on interest rates by a small and offsetting amount, and on defense, CBO is on both sides of OMB; CBO has one estimate, their version of current services, that is $6 billion higher, and they have their interpretation of the Gramm-Rudman formula $4 billion lower than OMB.

So this stuff is almost endlessly arguable. I think that at some point, one ought to abstract, step back and say in this historical circumstance, if we come up with a program on a bipartisan basis and enact it, that can reduce the deficit to meet the Gramm-Rudman targets, do we believe there will be a substantial reduction in interest rates as forecast—forecast on the assumption that we enacted such a program?

I think most reasonable people would think that likely. Is there a substantial possibility that we would all be wrong? Yes. It is the nature of this business.

Senator **Sasser**. But in the business of economic forecasting, I think we can agree that you are not on solid ground when you base your forecast on an interest rate projection of 6.7 percent, when interest rate at the present time is 8.3 percent.

Now, as I have indicated—and I do not mean to be argumentative—but as I have indicated, that faults your forecast from the date of forecasting. And rather than coming out with "a thousand points of light" here, what we are coming with is a thousand points of confusion, it appears to me, and that is why the American people and the markets do not seem to have much confidence in the way we run our budget process.

Mr. **Darman**. Well, I think there are lots of reasons for them not to have confidence, and I would hope we could act in a way that would improve the confidence they might have.

On the question of the interest rates you are referring to, those are the shortest-term Treasury Bills, and you are right, there is a substantial gap——

Senator **Sasser**. A $17 billion difference.

Mr. **Darman**. No—I heard you say that, and I did not pick up the opportunity to argue with that, but I would argue with that particular estimate. I think what you are doing, if I might suggest, when you come up with that estimate, you are then taking the difference in the interest rate on the shortest portion of the portfolio and applying the same difference across the whole portfolio. That is inappropriate. We have got nearly an inverted yield curve. Long rates are just about the same as short rates. And there isn't an obvious reason to think that because you are going to move the short-term number up, you should also move up the intermediate and long-term number.

The number, I think you will find, will be a substantially smaller number. If you make an adjustment in 1989 for the quarters that we are in that are at odds with the "forecast," it is obvious that reality at the moment is different from the forecast. If you adjusted just on the short end for that, you would have a very much smaller number than $17 billion.

But the point I am really trying to make is that, sure, we could make that adjustment. We could make a lot of other adjustments. We could make a defense adjustment; we could make a revenue adjustment. If we use the CBO assumptions on revenue, we could make our problems seem even smaller. If we use the Gramm-Rudman-Hollings estimates on defense, we could get the forecast deficit down to $110 billion and say, my gosh, we do not have a problem.

Well, we would not believe that. We do have a problem. I am not pretending we don't have a problem. We do have a serious problem, and we must address it. But I think we ought not to act as if we should have too much confidence in any of these numbers. At some point, you have got to back up and use a degree of common sense, because the people pretending to certitude about these numbers are pretending to something they ought not to pretend to, in my opinion—on both sides, on both sides.

Senator **SASSER**. Mr. Darman, you were quoted—not quoted, but you seemed to be saying in a "Wall Street Journal" article on January 13, 1989, that you would accept the deep automatic spending cuts mandated by Gramm-Rudman-Hollings as one way of reducing the budget deficit, and I think you responded to my distinguished colleague, Senator Cohen, a moment ago, saying that someone ought to prepare for sequester, if I'm not mistaken.

Now, my question is do you or the Bush Administration view sequester as an acceptable way of reducing the deficit as opposed to a deficit reduction program that would include spending restraint and also some increase in revenues?

Mr. **DARMAN**. Let me try to clarify what I am saying. By the way, the "Wall Street Journal" article, I saw—I have not since my nomination was announced—I have not spoken to any member of the press, so that was a report that was attributed to me from others. However, it was roughly accurate. Let me clarify, however, what I meant.

I would not prefer a sequester. I think it is foolish to prefer a sequester. I think that the sequester is a silly way to budget. I think it could have some serious adverse consequences on both the domestic and foreign side.

So as the authors—and we have one of the distinguished authors here today—intended, it is a very strong pressure to negotiate a more reasonable budget. My unequivocal preference is for a negotiated settlement of a more reasonable budget. I know that to be your preference. I think that is the preference, I would suppose, of virtually everybody in the Congress, and I am certain it is the preference of the incoming Administration. We wish to negotiate a bipartisan agreement on the budget. That is the responsible way to go at this.

If we fail, there is a law. It is law—it is not a question of whether I like it or don't like it, whether I think it is the world's most sensible way to budget or not budget—it is the law. And will I suggest that we live by the law if we do not reach a negotiated agreement? Absolutely, unequivocally.

Now, will other people in the Administration object and wish, therefore, to have a negotiated settlement? I assume so. That has been the pattern in the past. But I can tell you that my view is that if we don't reach agreement, the law is the law; we have got to live by it. And it is only in that sense that I was responding to Senator Cohen, saying that if I were in the Defense Department, trying to be responsible there, looking at the realities—we do not yet have a negotiated agreement—there certainly ought to be contingency planning for living with a sequester. I hope we don't do that. That is, I hope we don't have a sequester.

And I am not, as that article in the" Wall Street Journal" tried to suggest, I am not trying in any way to use this as a club. I am totally unashamed to suggest that I think it is not the best public policy. The best public policy is for us to reach a negotiated settlement on a mutually-agreed, responsible program. That is what I hope we do. But if we do not, I hope we live by the sequester, because it is the law.

Senator SASSER. My time is up, Mr. Chairman. Thank you.

Chairman GLENN. Senator Rudman, you have equal time now.

Senator RUDMAN. Thank you, Mr. Chairman.

I think Mr. Darman is doing just fine. I want to compliment you on your candor. It is rare, it is refreshing. We need more of it. I hope it is some indication of what we are going to expect in the next 6 months.

Picking up on your last answer, and on the Chairman of the Budget Committee's questions to you, I do not know how long it is going to take for people to fully understand—I know that the nominee does, because we have talked about it—that the whole sequester provision, in fact Gramm-Rudman-Hollings itself, has never been a mechanism, it has been a mentality.

I was very interested in your answer to question one under subtab 3, "Economic policy." You do not really have to look at it, because I am going to read you the part I am talking about. You were asked about the deficit, and you said, "I am fortunate to have the potential to operate within the more disciplined framework of G-R-H. It is my sense that both the Legislative and Executive Branches have learned the value of comprehensive, negotiated settlements—as represented by the Bipartisan Budget Agreement of 1987. I would hope to continue to seek such agreements—appreciating that, in their absence, the G-R-H sequester would remain as an underlying source of discipline."

Reading that answer, I get the clear impression that it is the intention of the incoming Administration to start immediately with negotiations, at least with key people in the Congress, to start moving towards a budget agreement.

Mr. DARMAN. Yes, Senator, that is correct—and that answer, by the way, does, I think, express—and you could tell me better than anyone if I am wrong—what was the intent of the original sponsors of Gramm-Rudman, that it should serve as an underlying discipline, but that it should move us toward negotiation rather than toward sequester.

Senator RUDMAN. Well, you are absolutely correct. I have described it on occasion, after watching what happened here between 1981 and 1985, as the symbolic two-by-four above the backside of the recalcitrant mule—the mule being Congress, the President, anybody else you want to throw in. And it has worked. I think my figures are correct that the deficit in terms of a percentage of GNP, since G-R-H, is now roughly cut by 40 percent; am I correct—down from 5.4 percent to about 3.2 percent of GNP.

Mr. DARMAN. Yes, sir. I wouldn't want to get into a long argument about causality, but that is true.

Senator RUDMAN. Well, now, I simply want to ask you this: This Committee has before it a number of debates on a unified budget versus nonunified budget. In fact, one of the things that we had quite a debate about in this Committee was taking the Postal Service off-budget. What is your feeling in terms of all these trust funds? Do you want us to continue with a the unified budget for the purposes of GRH, or do you find some appeal in peeling some of these other activities out?

Mr. DARMAN. Well, this is a complicated subject, and I do not have my own views fully developed on it, but I can tell you the direction of my prejudices. First of all, with the existence of Gramm-Rudman-Hollings, you cannot just look at the question of what is on-budget, what is off-budget. What you have to look at is the interrelationship between what you decide to do about that, what you decide to do about calculating the sequester point, what is in and what isn't in, for that purpose, and then what are the targets themselves—and as you start to move things off, do you adjust the targets for what you just moved off or not?

The people who designed the targets designed it understanding that the chart that is now down was exactly the way it is. If I may say, I have known Chuck Bowsher for a long, long time, and have great respect for him. There is nothing new in what he has exposed about the Social Security Trust Fund. It was advertised, published, by those who were involved in developing the Social Security compromise, which most of you voted for in 1983. This is just the fulfillment of exactly, or almost exactly, what was predicted in terms of building up the surpluses. That was known when the targets for Gramm-Rudman were set.

So if we were going to move Social Security off—off, for purposes of Gramm-Rudman—we would presumably have to adjust the targets. I think that would be a very unwise thing to do. Even though it would be logical, the symbolism, I think, would be very poor.

I think it was a very bad sign to financial markets when we slipped the Gramm-Rudman targets one year. I think it would be a mistake to have the first bold act of a new Administration be to start modifying Gramm-Rudman targets. I can't think of a worse symbol or signal in terms of the discipline we would intend to hold ourselves to.

So I think it is premature to start playing around with what is on and off, because it inevitably gets you into the question of rejiggering the targets, and I think it is a mistake to play with Gramm-Rudman targets until we have reached a budget agreement. Now, if we reach a responsible budget agreement, that meets the targets, and then say for the future, we want to do our accounting differently, I think there is a lot of merit in that point of view. I think there is a lot wrong with our current accounting. I think we should highlight more the difference between trust funds and others in the budget. I think we should move more toward capital budgeting in addition to our current kind of budgeting. I think we need to do a whole lot more analysis of all of the above. But first things first. Let us first reach an agreement that meets the existing targets, and only after we have done that, when we have at least earned some basis for credibility, only after that should we start playing around with the accounting, although I do think that the accounting is very important and at some point should be addressed.

Senator **Rudman**. I appreciate your answer. There are some of us who have been discussing this issue for the past 6 or 8 months, understanding particularly the anomalies that exist because of the Social Security surplus—which, incidentally, you are precisely right—the targets were drafted obviously with that in mind—some suggest that what we ought to be doing is looking ahead, and if G-R-H reaches its target by the fiscal 1993 time frame, we ought to provide for an extension of G-R-H which would consider the operating budget minus the Social Security trust fund and set targets for it to come in balance.

Do you think that would be wise in terms of accounting, after we have reached these initial targets?

Mr. **Darman**. Yes. That is consistent with the direction in which I think we ought to be moving, although I think in addition we ought not to be looking exclusively at that number. We have at the same time to be looking at what is happening in the trust fund accounts, and just this set of changes that we have just talked about now will still not adequately address the need to look at some things on a longer-term basis. Trust funds only get at a piece of that problem.

Senator **Rudman**. A final question, a brief one. As I am sure you know, one of the reasons that the entire budget came together so relatively easily this past year—and I serve on both Appropriations and Budget, so it was really a remarkable change to watch what happened this past year—was to a large extent because in the budget summit that was agreed to by the leadership there were some, if you will, caps and minimums placed in categories. Defense, foreign aid, was set here; domestic discretionary was set here, and you could not have the battle in which you would have transfers between the two.

Would I be correct in assuming that this Administration, when it comes forth for its budget negotiations, will come up with the same kind of a proposal that we do have a good faith agreement as to what these numbers will be and then change them within the category, but allow no transfer between them?

Mr. **Darman**. I think we in the Executive Branch—I am not in it, but if I am able to be in it—would prefer that approach unquestionably.

The interesting thing I have found, having been away for a year and a little, is that many more members of the Senate and House favor that than when I left, which was before the experience under the agreement. A lot of people have discovered, it seems, that the agreement has a lot of virtue in terms of helping the Congress operate in ways that they had not fully expected it might. And so my sense is, obviously, the Executive Branch cannot determine this unilaterally. It would be our preference to have something like that. My sense is that the Congressional leaders, especially of the key Committees—Budget, Finance, Ways and Means, Appropriations—are much more interested in this approach than they were before they had the favorable experience with it.

Senator RUDMAN. I think probably, to quote Senator Pryor, one of the reasons for that was that it contributed to the quality of life around here last year, to be able to have some targets to work with——

Mr. DARMAN. And rationality, and rationality.

Senator RUDMAN. Exactly.

Mr. DARMAN. There is much more lead time for doing a serious job on appropriations, particularly, and relying much less on these all-night CR games that everybody has participated in.

Senator RUDMAN. Thank you very much, Mr. Darman.

Mr. Chairman, I would just recommend to anyone who is interested, there may only be three people who are, if they look at this year's budget publication on page 3-18, there is an interesting analysis of the mean absolute errors and the mean errors of Administration, CBO and the "Blue Chip" economists, which absolutely validates the nominee's statements in response to Senator Sasser's questions.

I thank you for your answers, Mr. Darman.

Mr. DARMAN. Thank you, Senator.

Senator LEVIN [presiding]. I understand Senator Bingaman is next.

Senator BINGAMAN. Mr. Chairman, if you are using the "early bird" rule, I believe Senator Kohl and Senator Lieberman were both here when I arrived. I do not know what order they arrived in.

Senator LEVIN. Well, I was given a list by the Chairman. I will stand corrected and call on Senator Kohl.

Senator KOHL. Thank you.

Well, as a first-termer here, I bring, hopefully, some of the wisdom that comes from "beyond the Beltway." I have some observations, some questions and some thoughts to express.

As a person who was in business all my life, I always had to fight with the urge to fix things in the short-term. Instead, I needed to make really long-term decisions in the best interest of the enterprise for which I was responsible. And, while it was always difficult to resist the urge to make short-term fixes, the extent to which we did determined in the long-term, the success of our enterprise. And I am not sure that Government is entirely different—obviously, it is a different beast, but it is not entirely different.

I think it is interesting that in this discussion this morning, we have yet to really focus on, perhaps, the most important part of your job, which is to look at the long-term best interest of our country. We are talking about what we need to do this year to avoid financial problems. Of course, we must take care of today in order to have a tomorrow, but we have not yet talked about tomorrow. And I am talking about the problems that plague our country, problems which you must address in your budget—talking about education, talking about the problems with crime and drugs and infrastructure, talking about competitiveness, talking about the tomorrow that we need to have, or else there is no point in our being here today.

I am interested in your thoughts on that, Mr. Darman, and the extent to which you intend to focus on not just solving our problems this year, but really taking the kind of a look that our country needs at the tomorrow that we need to face and be concerned about.

Mr. DARMAN. Thank you very much, Senator.

In my responses to the written questions provided me by the Committee, I believe I suggested that I agreed with what seemed to be the implication of several of the questions, that one needed to examine the internal processes at OMB to determine whether enough attention is paid to longer-term issues, and whether there ought, perhaps, to be some changes in process or structure within OMB to get more attention to longer-term issues.

I tried to suggest that I thought there probably was a problem here that needed to be attended to. I may say I do not mean this as criticism of my recent predecessors alone. I think it is a problem that has been with OMB, to the extent it is a problem, for quite a long time, and I think the group that is there now has been, in the last budget, attempting to start a process that would address it.

It is very difficult to do a responsible job analytically of long-term issues. It is easy, as we all know, to talk about it; it is somewhat more difficult to do a solid job analytically. It takes human resources. The people within OMB work, I think, as hard or harder than almost anybody in Government. They are always under enormous time pressure. The pressures of this system that we are all part of here are such that there is inevitably time consumed in addressing the most immediate problem. And how better to structure the analytic capability in OMB to look at, in a responsive way, these longer-term issues is something that is high in my mind, and I do not have the solution yet.

I do agree with you completely as to its importance. I might just note—and I am sure you would agree—that when we do focus, as we are now, on the short-term on deficit reduction, we are also addressing a long-term problem, and that is debt, and it is future generations who have to service the debt, and so we are doing at least one thing, arguably, responsible for the future when we reduce the deficit. But it is not enough.

Indeed, it would not be irresponsible to run deficits, necessarily, if the debt that was being incurred were being invested in increasing future productive capacity. That is what any healthy, growing business does do. And I think part of our problem is that too much of the pattern of both public and private expenditure is on current consumption, not enough on investment in the longer-term.

As I was suggesting to Senator Roth, though, it seems to me to be a deeper problem than just can be solved by going line-by-line through a budget. We have a cultural problem, it seems to me, of under-attention to the future.

At any rate, within OMB we will try, if I am confirmed, to give greater attention to longer-term issues and analysis. Exactly how much that will really contribute to solving these long-term problems, I am not very sure of.

Senator KOHL. Well, I would urge you to do so. I happen to feel that you are one of the most powerful people in our Government by virtue of the position that you occupy. You really cannot address long-term problems without the commitment of funds. If OMB is not going to be concerned about this, then I am afraid what will continue to do what I think we have done over the past decade or so, which is to be so concerned and panicked about our short-term financial problems that we just refuse or are unable to step back and take a look at what is necessary to have a tomorrow.

All the signs indicate that we are not nearly as powerful a country as we were, and that the trends are not as positive as we would like them to be. And I happen to feel that by quirk of fate, Richard Darman is in a position to make a huge difference one way or another, and I would like to hope that that thought does not leave you and that the requirements of our country beyond this year become much more important at OMB than I think they are at the moment.

Thank you.

Mr. **Darman**. Thank you, Senator. Could I just make one small return request—and by this facetious remark, I do not in any way intend to reduce the impression of the importance I would attach to your views; I attach very high importance. We will all, I am sure, benefit from your perspective here in town. A group that could benefit especially from a long-term perspective and your management skills, in addition to OMB and the Congress, is the Washington Bullets. [Laughter.]

Senator **Levin**. He is an expert on that, too, as a matter of fact.

Mr. **Darman**. That is why I mentioned it.

Senator **Kohl**. I will take that as a compliment.

Mr. **Darman**. Yes, that is a compliment. And anything you could do to help the Celtics would also be appreciated. [Laughter.]

Senator **Kohl**. Not at my expense, though.

Thank you, Mr. Chairman.

Chairman **Glenn**. Senator Lieberman?

Senator **Lieberman**. Thank you, Mr. Chairman.

Mr. Darman, that last suggestion may run afoul of the antitrust laws, but it is a good one.

If I may return—perhaps I should say I cannot resist returning—to the discussions of poultry earlier in the day. I appreciated your "duck test," and I accept it, but I think that we run the risk that some may say that we are involved here in "high-level quackery."

I also appreciate the deference that you have given to campaign promises. I also came through a campaign last year. I said, as I am sure many others did, that the first order of business as a new Senator certainly was not to rush to raise taxes. In that sense, I wish the President-elect and you well in trying to realize and stick to that pledge that he made.

If we are going to be able to do that, it will require a heavy emphasis, if I may go back to Senator Glenn's opening remarks, on the "M" part as well as the "B" part of OMB. Understandably, most of the discussion this morning has been about your budgeting function. It seems to me that OMB has a special opportunity and responsibility to help achieve the kinds of efficiencies that can save us money and avoid the need for new taxes.

Arriving as a newcomer, realizing and expecting the budget deficit, I have found my blood boiling by the increasing revelations concerning the savings and loan crisis. This seems to me like adding weights to the bar of a weight lifter who is already having trouble getting the bar off the ground. I want to come back to that in a minute, but if I may first focus on the management side of your work.

Yesterday, Mr. Bowsher and the others from GAO told us that there are 378 employees of OMB. Let me ask you what emphasis you intend to put on the management function of your office and whether you think, as the people at GAO do, that you need more people to carry out those goals.

Mr. **Darman**. I would hope to give great emphasis to the "M" part of OMB. I first arrived in town when the "M" was put in OMB. And there was a great degree of attention to it early, but over the years what has happened is, with the best of intentions, the "B" has nonetheless almost always dominated. The Director has been pulled by the Congress, entirely correctly, into negotiation after negotiation on one or another budget-related issue, and a great deal of the Director's time, regardless of what he said at the outset, has been consumed with that. The tendency has been to say that "M" is for the Deputy Director, but then the Deputy has been sucked into the same process. And with the best of intention, "M" within OMB has suffered.

At the same time there has been a second tendency, which I am sure you would view as understandable. When we have been trying to apply standards of some fiscal stringency to other parts of the Government, I think OMB has been hesitant—and understandably so—hesitant to ask for an increase in its own resources. It would be accused of hypocrisy, no matter how much the resources might be deserved. In fact, it is somewhat academic, because whatever OMB has asked for over the last decade, roughly, it has received less than it has asked for from the Congress. So you and Mr. Bowsher are correct—OMB's number of people has declined. The actual number of people on a full-time equivalent basis is a little higher than you suggested, but the number has declined, and in the process, the percentage allocated to what would be viewed as management has also declined.

I would like to change that. I am not sure I will be able to change it in the way I would like without additional resources. I am going to try. I do not myself want to be in a position of being accused of being hypocritical, coming up here, asking—as I will be at some point, if confirmed—for some very unpopular cuts, and turning around and asking for an increase in the staffing of OMB. I just think that that would be foolish. The Congress is not going to give it to OMB, I would expect—it hasn't in the past eight years. So I think we are going to have to live within these tight resource constraints at OMB.

So it is going to be difficult to do as much as one would like on the "M" side. Nonetheless I think there may be ways to do a great deal more than has been done, meaning no criticism of my predecessors, but a great deal more than has been done with some simple systems changes that make more use of the existing resources within OMB. It has got to be done.

Senator **Lieberman**. Mr. Darman, I appreciate very much what you are saying, and I for one would urge you to revisit that question. I understand your sensitivity about being accused of inconsistency since you are asking others to cut or limit the growth of their departments. On the other hand, your department has the opportunity, with additional personnel, to realize substantial savings, or avoid substantial losses, and that could limit the need to cut the budget in other areas of Government.

This is like the old discussions we used to have back in Connecticut about how much money we can raise every time we add an auditor to the State Revenue Department. By and large they made a lot more money than they cost. I think that you may be in the same position in your department.

Mr. DARMAN. I appreciate your support, and when I was at Treasury we did seek successfully to increase resources for enforcement at IRS and did have a favorable yield on that investment.

It is a little tougher to show a favorable yield on investment at OMB. Indeed, nobody identifies any positive product with OMB.

Senator LIEBERMAN. Maybe we should create some standards, some measurements to do that, because they are certainly there.

Do you envision an expanded role for the various Inspectors General at different governmental agencies as part of the management side of your job?

Mr. DARMAN. I cannot say that I envision an expanded role. I do not know enough about what the role now is. My understanding is that it has been evolving over the last several years in a way that has increased the number of inspectors general and increased the degree of respect given them and to some degree, their effectiveness. I would want to continue the trend certainly with the respect and effectiveness and support.

I do not know enough about how much opportunity there is to expand. I do not indeed know what exactly you might mean by "expand". If you are really looking for a measure of degree of enthusiasm for the function and support for the function, it is strong in my case. Indeed, I was for an inspector general at the Justice Department back in 1973, before anybody really was in favor of inspectors general, and it took, I think, until just a few years ago to get one.

Senator LIEBERMAN. That enthusiasm is the beginning of what I am looking for, and I appreciate it. My sense of it—and this is a very untutored sense, with incomplete information—is that those IGs have played an important role, primarily in the area of fraud and waste. Perhaps they could play a more positive role in the area of overall management as well.

Can I ask you to focus for a moment on the most aggravating of the current examples of governmental mismanagement—the savings and loan crisis. From all that we heard yesterday, that crisis is the result not just of widespread fraud and mismanagement by managers of the savings and loans, but also of lack of effective oversight by the Federal Home Loan Bank Board.

What is your understanding of the Federal Government's role in putting us in this additional hole that we are in now? Secondly, do you have any thoughts about how we might avoid it and further indebtedness in the future?

Mr. DARMAN. I think that the savings and loan crisis or problem can be explained by many, many different things, importantly among them—and not in order of importance—a Federal insurance system that is in fact essentially unlimited, with behavior that is regulated to some considerable degree by States. There is an inconsistency, as you would normally think of a management responsibility, at least in terms of, on the one hand, the obligation to insure and the other, the locus of responsibility for some important elements of chartering and oversight.

I am not trying to suggest the particular change. I am noting that is a problem. Another was the interest rate squeeze. Obviously, the mortgage portfolio was at old, low rates, and interest rates started rising in the Seventies and Eighties, so the cost of short-term money was rising enormously, and they had negative spreads and started losing money.

In the oil States, the collapse of the price of oil, in farm States, after the benefit of inflation came the price of disinflation, and one side of the balance sheet was going down in farm land values. In some States—I would think California might be such a State—the State regulatory environment allowed much, much higher-risk activities than had previously been the case in order to try to address this problem and get much higher returns on some quick basis, so there were more bad investments made, bad investments following bad investments in some cases.

There was also fraud in some cases—I do not know the percent of cases—as you have suggested. And there was also, I think, a failure of Federal oversight. I think there is enough blame to go way, way, way around, and I would not focus exclusively on the latter. It does have to be corrected as part of any solution to this problem. It seems to me unreasonable to expect, and it seems to me irresponsible to ask, that the Congress should allocate additional money to address this problem if it does not have a reasonable basis to think that it is going to in some way change the environment so the problem does not land right back on the Congress' desk, on our desk, four or five years from now for refinancing once again.

Senator **Lieberman**. If I may, Mr. Chairman, just continue very briefly. Mr. Bowsher, yesterday the GAO people said that they estimate this will be an $85 billion problem for us in the coming years. Do you accept that estimate? Do you have one?

Mr. **Darman**. No, I do not accept that estimate. When I was at Shearson, I did not actually do the work, but I encouraged the performance of the work that developed a model of sorts, a primitive model, for the S & L industry, because I was disturbed with all of these point estimates that were coming out. As you will recall, they were way low; Danny Wall was coming in with one number and then a higher number and then a higher number; outside economists were at that time coming in 50, 60, 70—they all had these very precise estimates, and they were making different assumptions.

So the little model we created tried to take into account the fact that there are an awful lot of variables that will determine what the cost actually is, and it allowed you to change interest rate assumptions, change oil price assumptions, and so on.

Now, with that model, using probably what you would consider sort of moderate, mainstream assumptions, I think—I never saw the final version of this model; my nomination came before it was done—but I think the number came out to be in the 75 to 95 range, which would allow you to have a point that is very much like Bowsher's, $85 billion.

But again, consistent with the points I was making earlier about macroeconomics, this turns so much on assumptions that are difficult to make reliably, like interest rates, oil prices, and so on; the rate at which real estate is going to come back; the rate at which the farm economy is going to come back, and so on, that exactly what the estimate is—one thing we know: It is large. It is certainly more than 50, and 85 is not a bad number to use, but I would not wish to be stuck with that single-point estimate.

Senator LIEBERMAN. I understand. Thank you.

Chairman GLENN. Thank you.

Senator Bingaman?

Senator BINGAMAN. Thank you, Mr. Chairman.

Mr. Darman, let me ask about education. There have been a couple of general questions on it. I had the opportunity yesterday to speak to our State Legislature in Santa Fe, and the biggest problems they are facing are how to carry through with some of the educational reforms they have earlier mandated, specifically how to fund them. Basically, they want smaller classes, they want teachers' aides, they want enriched curricula in science and mathematics, and they do not know how they are going to get the money to do these kinds of things I mentioned and much more.

First, let me give you my view, and then you can comment. I think it has been pretty clear during the Eighties the Reagan Administration has shifted the responsibility to provide funds and resources for education to State and local government and away from the Federal Government. The Office of Technology Assessment (OTA) did a report recently that said that going into the 1980s at the beginning of this Administration 8 percent of the national expenditure on education came from the Federal Government; today, it is 4 percent of the national expenditure for education comes from the Federal Government.

I guess I am interested in knowing whether that can change. With all the talk about this new President being the education President, do you see a significant change in that? Do you see us once again getting to where we were under Jimmy Carter, for example, and having 8 percent of the burden carried by the Federal Government, or even better? Is it possible that this President could do better than Jimmy Carter in the percentage of the responsibility that the Federal Government picks up in education?

I'll let you comment on that.

Mr. DARMAN. Thank you, Senator.

In the course of the campaign, you are correct that the then Vice President said that he wanted to be the education President and emphasized that theme in many different contexts. He did at the same time, however, say that he did not want that to be measured by Federal financial resources or the percent of the overall education investment that is being made that is accounted for by the Federal Government.

He did specifically address that issue. So I think that I would be correct in suggesting that, yes, you will see a lot of emphasis on the role the Federal Government can play in providing leadership in certain respects with regard to education. I do not think that you will see a significant—significant—change in the percent that is accounted for by Federal resources. In other words, that is not to say there may not be a modest increase in the education budget, but a modest increase will not accomplish what you are talking about in terms of a significant shift in the percentage.

Senator **Bingaman**. There was an article yesterday in the "New York Times" where the reporter made the comment that, in the area of education, "the new President will have to pick his shots carefully, seeking low-cost gestures aimed at winning support from the public and Congress."

Is that reasonably accurate, in your view? Is that a fair paraphrase of what you just said?

Mr. **Darman**. No, I do not think that it is. I did not see that article. But I think the term "gesture" is a pejorative in that context, and I do not think it would be appropriately applied to either what the Vice President would do as President or what he has said he would intend to do.

I think, though, that there is an extremely important role to be played by the Federal Government in highlighting what does work and in encouraging innovation within the educational system. And I am well aware of the philosophical argument about how much more than that role there ought to be, but that is not an insignificant role in its own right, and I think that activities under that heading should not be viewed as mere gestures. My own personal view is we really need a very substantial change in the way education is conducted in this society, and leadership about new ways that are more effective, and indeed, funding that encourages that and then highlighting that. That is a very responsible Federal role that should rise above the pejorative gesture.

Senator **Bingaman**. Let me bring the discussion back to what I think you have stated here and other places, that you see low productivity growth as the central problem facing us for the long-term, and that we will have for some years now.

If in fact the Federal Government is not going to significantly increase investment in education to deal with that low productivity growth, what do you see us increasing investment in to deal with that low productivity growth?

Mr. **Darman**. I do think that we can improve the education system substantially without a major increase in resources applied to education. So I do not want to just pass lightly over the possible suggestion, if I understood you correctly, that we might not be interested in education as a means to improve productivity.

Quite the contrary, I think education is fundamental to productivity increase. I do not think, however, that just changing resource levels in education is sufficient to address the kinds of educational problems that I believe we had.

So I think we will be addressing education, but not with substantial increases in——

Senator **Bingaman**. But not by additional investment.

Mr. **Darman** [continuing]. Yes, but that does not mean you cannot have very substantially improved return on the existing investment.

Senator **Bingaman**. I understand.

Mr. **Darman**. Secondly, I have suggested—and I do not know how quickly we will be able to move in this direction, but I do think we need to do more in the area of applied civilian research and development; making the existing R and D tax credit permanent would be a responsible step to help encourage that.

I want also to take a look at the portfolio, so to speak, of Federal investment, direct investment in R and D. The applied civilian portion has declined somewhat in recent times, although overall R and D as a percent of GNP has stayed about the same or risen slightly. And I want to take a look at that. I think that is very important to long-term productivity growth.

Then I also think—and this one is much squishier—but I think there is a moral dimension, and it applies to R and D and to education and to a lot of other things. And that is we need to do something—I do not know what the "something" is—but we need to do something to re-instill in ourselves collectively the sense of the importance of the future, the importance of investment, the importance of the work ethic, and a number of these somewhat unattractive traditional values that make people think I must be one of the most awful people on earth. But I do think that they are important, and we are losing a little something as a Nation by not attending to the values dimension of this as well.

Senator **Bingaman**. I guess I will just comment that I do not disagree with you that exhorting the populace to work harder and do better and learn more is certainly worthwhile, and I think it is a proper function for the President. But I do think that some commitment of resources to key elements, some additional commitment of resources to key activities that impact on productivity is crucial. And if the Federal Government is not willing to make that commitment of additional resources in education—I welcome your comment that you think perhaps additional resources would be committed to commercially relevant research and development, and I agree that is another area. But I guess I just think that without some programmatic substance to the general desire to become more productive, we are never going to get there.

Mr. **Darman**. I think we can have programmatic substance within the field of education, but that it does not require a substantial increase in Federal investment.

Indeed the Federal investment, as you point out, at either level is still a tiny percentage of the whole, and so quite obviously what we have to be thinking about is how can we get leverage with that investment on this great mass of a system which is, by design, largely outside of Federal control—and we want to keep it outside of any direct Federal control.

How can we influence this great, giant system to modernize when it has enormous inertial tendencies? If you just increase resources in the existing system, it is my personal opinion, meaning no great disrespect to people in that community, that you will see no technological change in the education system—no significant technological change.

It is also my view that unless there is significant technological change—as well as the moral and exhortations—technological change in the system of education, we are not going to be able to be as competitive as you would like us to be.

But the Federal Government does not have the resources to force that kind of revolution. It has to come from a system that wants it.

And what can help make it want it? Federal leadership and demonstration.

Senator BINGAMAN. I believe my time is up. Thank you very much.

Chairman GLENN. Thank you, Senator Bingaman.

Senator Pryor?

Senator PRYOR. Thank you, Mr. Chairman. Mr. Darman, why should the American taxpayer be asked to bail out insolvent savings and loan associations across the country?

Mr. DARMAN. Senator Pryor, the American taxpayer should not be asked to bail out insolvent savings and loans unless we are fully satisfied that we have exhausted every other possible source of funds for addressing the problem. But this is not like a Chrysler bailout, say, or some of the other bailouts that have earned the label, in one important respect—the Federal Government already has the obligation, for better or for worse, for all of these deposits. They are already insured. It is no new act of Congress. The obligation is there, and the 500 thrifts that are insolvent—that is a burden that is already upon us, and we—we, collectively—the law requires that at least the insurance side of that problem be honored.

The question is where do you come up with the funds not to undertake some new obligation, but to fulfill the old obligation that is current. And we agree completely, or at least agree with the implication of your question, that the public sector ought not to be the first resort source; it ought to be the last resort source.

Senator PRYOR. Mr. Darman, of the 500 S&Ls that are now insolvent, of the top 100 most insolvent, 80 are paying interest rates higher than local banks in their areas. This is, in my opinion, threatening the liquidity of the banks that are stable and vital.

Have you discussed this issue with President-elect Bush?

Mr. DARMAN. We have discussed the issue——

Senator PRYOR. The general issue of the S&L crisis.

Mr. DARMAN. Yes, yes, I have, but I have not——

Senator PRYOR. Does he have a solution?

Mr. DARMAN. No, he does not yet; but he has charged Secretary Brady to come up with a recommendation to him very promptly. I understand that that should be ready within a matter of weeks, not more.

Senator PRYOR. Is President-elect Bush aware of the statement Mr. Bowsher's made yesterday in this same room, before this same Committee, to the effect that every month that we wait, $1 billion is being added to this particular deficit situation?

Mr. DARMAN. Yes, I think he is aware of the point, not necessarily the billion—you can get a little bit of an argument about the billion—but that we are continuing to lose money by not acting more expeditiously on this; yes, he is certainly aware of that.

Senator PRYOR. Mr. Darman, is anyone in OMB—and I am looking at the "M" in OMB, the management side—monitoring what is happening today in the relationship between the Federal Home Loan Bank Board, FSLIC, and the recent Texas, what I call "sweetheart deals"; is anyone monitoring that in your shop?

Mr. DARMAN. I do not know, Senator. I am unfortunately not yet in my shop.

Senator **Pryor**. We are going to try to get you there are soon as we can, I might say.

Mr. **Darman**. So I have not dealt directly with anyone at OMB other than the two top people, because I cannot as a private citizen.

Senator **Pryor**. The 1990 request for education—this is one of Senator Bingaman's concerns—is roughly $20 billion, $20 billion in Federal dollars. The request that we are going to be looking at in the S&L crisis is somewhere between $85 billion and $100 billion, four or five times the obligation to these insolvent S&Ls versus $20 billion of our whole one year's budget to the educational systems of this country.

Does that concern you, Mr. Darman?

Mr. **Darman**. As I said, the obligation is already there. This is not something new. The question is how are we going to fix the system, and what system do we want to use to finance the inescapable obligation to cover a good portion of this.

But could I make one point, Senator Pryor? I do not think the $85 billion is quite right for the purpose that you are using it, if I might suggest. I think when people get to the number 85—and I talked about it before—they are talking about the 506—I think it is 506—insolvents on the list. But that number is not 506 anymore. We have had a lot of action. There has been a lot of criticism of some of the action, and I am not in a position to comment about whether the action has been good, bad or indifferent. But there has been a lot of action, and we are way below 506.

The number 85 applies to probably $40 billion worth that has already been done in reducing the 506 down to whatever it is now, probably closer to 400. So the remaining amount to be worked out may be on the order of more like, let us say, 45 or 50, not the whole 85 or more—I think the numbers that Mr. Bowsher was using were numbers for the whole 506.

If some of the deals that have been done—and I have not looked at the terms of them—but if some of them have been done on a basis that is poorly-designed and going to land on the Federal doorstep again, then some portion of the 40 that is already done, we have to count as a possible additional expenditure in the future.

Senator **Pryor**. If the taxpayer is asked to come forward and help to so-called "bail out," and I know this is different from Chrysler. In fact, with Chrysler, we had some assets that we were going to get; we had some jobs that we might ultimately create if the plan worked, but under the S&L bailout, we create no new jobs; we keep some S&Ls open. The question is this, philosophically: If we ask the taxpayer to come in and bailout those S&Ls, is this rewarding incompetence? Is this also rewarding to some extent the greed of those S&L managers?

Mr. **Darman**. It certainly shouldn't be. It seems to me from your position and ours—pardon the use of "ours"—yours and the position of the Executive Branch—you do not want to have any of the "bailout," go to the financial benefit of parties who were either corrupt or demonstrably incompetent. They have got to be—to use an impolite term—thrown out. In the reorganization, whether it is liquidation or reorganization, consolidation, whatever it is, to the extent that there are identifiable parties who are corrupt or incompetent, they certainly should not be part of any solution, and they certainly should not get any financial benefit from the resolution.

Now, the people who are getting the benefit—and "bailout" has obviously a pejorative connotation, which is understandable—but the bailout in this case is not the existing stockholders of these insolvent organizations—they are by and large coming out with nothing. The "bailout" is ordinary depositors who would otherwise be losing some substantial portion of their deposits if either private sources or the Federal Government did not cover the obligation.

Senator **Pryor**. Mr. Darman, I am certainly not a student of this whole situation, but I am not so sure that the people who have managed these insolvent S&Ls, and those who have basically gotten them into this position, are not going to end up profiting themselves from this. I am very concerned about this and I think that we really need to do some monitoring on this situation.

My time is about out, and I want to shift gears for just a moment. OMB is supposed to advise the Congress on cost overruns of defense weapons. Usually, when we are advised of defense cost overruns for a particular weapon system—let's take the B-1, for example—it comes after the fact rather than before the fact. We have a system with the AMRAM air-to-air missile. We have the situation with the Stealth bomber going into production.

What will be your policy, and what changes will you make in OMB to show us before this happens what the final pricetab is going to be?

Mr. **Darman**. I cannot give you an answer that would satisfy you or me, because——

Senator **Pryor**. Who can?

Mr. **Darman**. Well, I will be happy to try to give you an answer once I am there. I do not have enough of a feel for what the problem is and how much of it may be in the lack of the correct information within DOD or some hiding of that information or a reluctance to get the information to OMB or some oversight on OMB's part with respect to information that it is getting.

I do not know where in the system the problem really lies. It is extremely important. I have worked on this in the past—without great success, I may say—when I was in the Pentagon in 1972-1973. I want to work on it again. I do take your interest very seriously. I cannot tell you exactly how I would fix it. I would be misleading you if I suggested I thought it would be easy to fix.

Senator **Pryor**. Mr. Chairman, I have one question, and he may not be able to answer this, and my time is up, but I will submit it for the record.

Last year, in my opinion, OMB had a great deal to do with President Reagan vetoing the Whistleblower Protection Act. Will OMB take that same policy should the same act be passed by the 101st Congress? I will submit that for you to answer at a later time, should you so desire and should the Chairman request it.

Mr. **Darman**. Could I deal with the question for a moment?

Chairman **Glenn**. Yes, go ahead.

Senator **Pryor**. Then I'll ask the question; yes.

Mr. **Darman**. Just on a point of fact, Senator Pryor, I have, at Senator Levin's request, reviewed the record as best I could on this. It is not my impression that OMB was responsible. There was a significant failure of communication there, a very significant failure, and I certainly do not want to be party to anything like that in the future. But in reconstructing the record, I do not see that it was OMB. It appears to me that it may have been a change in view or a failure adequately to communicate the views at higher levels in the Justice Department and not in OMB. I think the OMB position was fairly consistent on this.

In any case, the more important point is, I think, that whatever it is that OMB communicates to you, you can count on. And I do not ever want to get caught in a situation where you cannot count on what I say. So my intention in this case would be early on to get with the Attorney General to see if we can work out what our views would be jointly, to get a decision from the President as early as possible on this, and to communicate something to you that we could be sure we could deliver on.

If I were to communicate any definitive answer to you right now, it might be as worthless as the last one you received, and I do not want to do that. I would like to give you something you could count on.

Senator **Pryor**. Thank you, Mr. Darman.

Mr. Chairman, just a 20-second comment. The ramifications of vetoing the Whistleblower Protection Bill were felt early this week. It came down upon a man who testified in this Committee room on cost overruns of the Navy. The first of this week the Navy finally got him. They finally ran him off. He has no recourse, he has no protection. He was a whistleblower who came on his own right, at his own expense. And today, he has been removed from the Navy. And I think it is imperative that we look at protection for these people.

Thank you, Mr. Chairman, and thank you, Mr. Darman.

Mr. **Darman**. Thank you, Senator.

Chairman **Glenn**. Mr. Darman, on our second round of questions, we probably have time for a couple more 10-minute rounds before we break for lunch at about 12:30.

Just one comment on the S & L crisis. There is a proposal being circulated which would transfer control of FSLIC from the Federal Home Loan Bank Board to FDIC. As I understand it, one benefit of this would be to remove responsibility for regulation of savings and loans away from the organization charged with promoting the industry.

Now, there are some obvious money problems with this also, as to which fund would pick up what liabilities, and so on. But what are your reactions to putting FSLIC under FDIC?

Mr. **Darman**. I do not know that I would necessarily adopt that form of a solution, putting FSLIC under FDIC. But I do think that it is correct—and I think it was Bill Seidman who, at least to my knowledge, made this point first recently, publicly—although many have made the point, I guess—that there is an inherent conflict in the existing FHLBB structure and system, a conflict between the interests in promotion and the interests of responsible regulation and oversight and supervision. And that conflict has to be fixed.

Moving certain of the functions over to FDIC would be one way of fixing it; there are other ways of fixing it. Clearly, some of those functions, I think, have to be separated out. We need to have improved supervision, examination, oversight, and it has to be separated, I think, from the promotional side of the responsibility.

Chairman **Glenn**. I want to change direction a little bit here. I have been very concerned and involved for quite a number of years now on the nuclear situation—nuclear clean-up, our nuclear weapons complex, and what is going to be required to help this. I have been following this personally for about nine years now, trying to get some attention on it. All at once, it is the catch-fire item of the last six months or so because of the situation at Savannah River that brought attention to this issue.

How we go about this, though, how we clean up, how we modernize that plant, how we keep the tritium production we need, and how we go ahead with cleanup at the same time, is a big order. And it is 35 years or so, 38 years, of neglect, which I wish I could say was "benign neglect"—it is not. It is threatening neglect. And we cannot wait, to start on that cleanup. We have to do it.

Now the written answer that you submitted on this topic for the record, as far as it went, I do not have a quarrel with you. You come up with a cost, listing some of the different things that happened there. But you take the cleanup and some of the modernization period out, and average it over a 35-year period which does not complete the project until the year 2025. Now, that obviously reduces our yearly requirements, but some of the totals that you have, I would add some others to it—totals that are from testimony, in this room from the Department of Energy last summer, where, if they put the cleanup on a 20-year period, it was going to cost between $35 and $65 billion. Just maintaining a base program for existing environmental law was going to be $700 million a year. That is $14 billion over a 20-year period. Dealing with waste, high-level waste, transuranic and low-level, was a $45 billion tab in that same time period. Decontamination and decommissioning some of the sites are another 15 to 25.

You can come out somewhere between $200 and $250 billion if you total all those up on the high side as opposed to the low side.

Now, these are enormous, enormous figures, and as I said, we are talking about some 38 years of neglect. Now, the Department of Energy, once they got sensitized to this over the last 2 years, started pushing for more money, trying to get it into the budget. It is my understanding that their request for the 1990 budget was a considerably larger amount than what they got, which I believe is 1.8, basically, to perform these functions.

This got to be a real head-knocking between DoE and OMB. The decision went to the White House and, obviously, OMB prevailed in the situation.

I would like to know what your views are on this, because it is of tremendous interest. We found that DoE, when their final request came in the completed Reagan budget, got roughly, in most areas, about one-fourth of what they truly needed, according to DOE testimony before this committee last summer. By GAO's estimates, it was about one-sixth of what they needed.

The request of $81 billion over a 20-year period provides $52 billion for modernization; $29 billion for environment safety and health and cleanup. In the budget for the coming year that was submitted, as we understand it, there would only be some $300 million to really get going on the cleanup function which, by my estimate, may well buy the blueprint paper and not a whole lot more, considering the size of the job that has to be done.

We have several hundred thousand people around these plants, and workers at these sites, that are truly at risk. I do not think we have the option morally, as a nation, to ignore the problem and put it off over a 35- or a 40-year period. It is a big order, and I do not know how we take care of it, but I know the need is there. I know somehow we have to do it, because these people are being dealt with unfairly. They were duped through the years. Under the secrecy of our weapons production program, everything was geared to "The Russians are coming, the Russians are coming, and we have to produce and we have to get the plutonium"—and I backed that, I was for that. But we had no idea of the problem at the time. When we asked, "What are we going to do with the toxic waste and the radioactive material?" They said, "Well, we've got to produce. Don't worry. Put it in a pit out there behind the plant. Do something with it, get rid of it. We will deal with it later."

Well, the later is now, and I would appreciate your comments on this. Then I want to get on with some of the other programs, also. This is really a tragic situation that has developed; it was not of your making or my making, but it is there and it is a Government responsibility. We cannot put it off for 30 or 35 years.

Mr. Darman. Thank you, Mr. Chairman.

I would have to confess that although some kind things were said of me about knowledge of the Government and service in six Cabinet departments and so on, that this is a problem I had never even encountered in Government, and I think there are an awful lot of people who are in that situation. It has, for a variety of reasons you have alluded to, remained somewhat hidden until recently. And I congratulate you for the attention that you have focused on it, because although it is new to me, I have tried—and I am only at the start in this process—to get briefed on what we do know. I am certainly nowhere near as knowledgeable as you and others on this subject at the moment. I am going to try to get more knowledgeable. I am just starting.

Chairman Glenn. I will be glad to work with you.

Mr. Darman. It is clear to me, however, that there is unquestionably a significant moral issue and a significant health and safety issue that is related to it; a significant national security issue and a significant economic issue. It is an absolute classic. It is a classic of how almost everything can go wrong, and it is a classic about how hard problems can be to solve when you have got to wrestle with competing interests. And I am sorry it is there.

That said, I have met with the existing DoE officials to try to begin to get on top of this. It is only beginning. I have talked with OMB people. I am meeting with Secretary-designate Watkins on Monday to jointly try to determine how we can structure further analysis on this, all with a view toward reviewing that OMB decision you are alluding to, or you specifically referred to.

President-elect Bush has asked that we do this. My sense is that we will be able to address the short-term funding issue on the basis of information in-hand in a way that—I do not know—there may be some reasonable basis to have confidence in.

With respect to the long-term issues, I do not believe that by mid-February, I would be in a position to have a fully responsible analysis of that. I am aware that an awful lot of work has been done, but it is in the nature of these problems that since they have been hidden for a long time, and some people have had an interest in hiding them, you do not know how much confidence you can or cannot have in the information you are getting—even at this stage.

Chairman GLENN. Well, I would say this, that with every bit of information we have developed over the past several years, the situation has gotten progressively worse, not better. It has become worse and worse and worse. So as far as relying on the information, I think we can rely on the fact that it is getting worse, and it is not going to get cheaper to clean up.

Mr. DARMAN. And, as you know better than I, there are some policy issues as well. In tritium production, how much redundancy do we need, and how soon do we need the redundancy—this is not in the area of hiding the information or anything; this is really just conventional policy judgment.

Chairman GLENN. No; I have gone into that topic in considerable detail, also. And I support the tritium production. I am not an antinuke type who is trying to do away with everything that has anything to do with nuclear power, nuclear energy and nuclear weapons. Quite the opposite, I have supported those programs. But now we know that we hid the safety and health difficulties in these areas all through the years. Now we have to get going on cleaning it up.

My time is almost up, and I will come back to this in more detail later—but yesterday in this room, we had a list of some 14 different areas that are similar to the nuclear cleanup issue. GAO pointed out to us where we have huge, and I mean huge—estimated to be about $365 billion total—unfunded expenses. We know of commitments out there right now that we have to meet.

Just some of the biggest ones here—bailout of FSLIC, what are we going to do on that? We do not know. The nuclear cleanup at DoE; cleanup of hazardous waste at military facilities; the unbudgeted costs of DoD's Five-Year Plan, which we have not gotten into yet; modernization of the computer and telecommunications system is already underway, but unfunded; modernization of the air traffic control system, which is bordering on being dangerous; already-provided-for long-term health care for the elderly, I mean in law, is not funded; highway and bridge repairs, which is becoming almost critical in many States, as far as bridge repair goes.

Now, there are five or six other concerns here that perhaps could be put off a little, but the total is $365 billion. Now, those are total costs. You can lay them out over "x" number of years, but these are just like a time bomb ticking, as far as the economy and the budget goes.

Are you addressing these issues, or do you plan to address them in the new Bush budget?

Mr. DARMAN. Some of them, we will be addressing and—I jotted down the list quickly; I am not sure I got it all—some of them, it would be my expectation we would not address immediately.

FSLIC, I would hope we would be in a position to address by the time we are coming forward with something, and I would also hope, by the way, that that one turns out to be not a significant—I mean, it will be big—but not a budget-breaking number insofar as public funds would be required.

We have just talked about the nuclear issue. The DoD Five-Year Plan—my opinion is that that will have to be modified; that the resources for the Five-Year Plan are not likely to be forthcoming.

Chairman **Glenn**. You would see major reductions in defense budgeting, then?

Mr. **Darman**. I am not saying we would see major reductions. I think what Mr. Bowsher was referring to was his judgment that the existing plan is underfunded even at the growth rate that it is at, and if that is right, there has got to be some contraction even with those resources. Now, my suspicion is that there won't even be out of the Congress the resources that were presumed in that Five-Year Plan. So I think, yes, there will have to be some significant adjustment.

I do not see us as in a fiscal situation where it is likely that there is going to be significant continuing—in the near-term—real increases in defense, whatever one might wish. The reality has been that Congress has provided negative growth in defense for the last four years, and it seems to me that planning has got to start adjusting to the reality of the likely resources on the defense side.

I am not saying that I am favoring cuts. I am just saying that as a matter of realism here, the full, original plan levels are not going to be forthcoming from the Executive or the Legislative Branch.

So there won't be a budget squeeze; it will be a defense squeeze of some sort.

Chairman **Glenn**. I will come back later when we reconvene and ask some more questions. Part of that question after the red light came on, and I apologize to Senator Roth. I will come back and revisit this issue a little later, and we can discuss it further this afternoon, perhaps.

Senator Roth—and then we will end after his questioning until 2:00.

Senator **Roth**. Well, Mr. Chairman, I am going to be very brief. I have a couple of questions I would like to raise. But I would like to urge, if we can, to try to complete these hearings and have the vote, so that we can have a Director in place very promptly, which I think is in our interest—and that is one of the reasons I'll keep my questions very short.

As I understand, anyone can submit questions in writing—and that may not be good news to you——

Chairman **Glenn**. Well, it is not good news as far as getting him sworn in rapidly, either. At the end of the hearing, we allow people to review the record, and we allow another 3 days in which to submit those questions. Then we allow another 3 days for the nominee to answer them, and then we get them back to the members to see if there are any follow-ups on that. I would much prefer if members and their staffs could be aware we would like to have any questions here and now if we can. We would like to wind up as much of this hearing as we can this afternoon. If it goes over to Monday, I would absolutely hope that we could get by without many additional questions submitted so that we can be prepared a couple of days later, on the 25th—that will be our first legal day, I think——

Senator **Roth**. Let me say, Mr. Chairman, I think on our side, as far as I know, Senator Wilson may want to return, but I think beyond that we may be finished here.

In any event, I would hope that we could complete it this afternoon, because I think that would be in everybody's interest.

Let me not extend it by this line of discussion, but go to two quick questions. I regret that not more attention has been paid to the management issue because, as I think Senator Lieberman properly pointed out, the "M" in OMB is extraordinarily important, and I would hope that after you get your feet on the ground, you would come back, and we would be able to discuss some of those questions at greater length.

But I do have two questions. Recently, the National Academy of Public Administration, in a study entitled, "The Executive Presidency," recommended the creation of a bipartisan commission to study and recommend improvement in the organization and management of Government. Now, this is an area where too often any new Administration does not want to devote either too much time or political good will; yet the fact is we do have a Rube Goldberg contraption. We are having problems holding the kind of professional people that we need for the Nineties as we compete in this new global economy.

I was gratified that in the recently enacted legislation, primarily concerned with the Department of Veterans Affairs, that it did include the creation of such a commission. And I wondered whether this matter has come either to your attention or to that of the President, because I would hope that the legislation would be implemented.

Mr. **Darman**. Senator, I apologize. I was not familiar with it being in law that there should be such a commission. Obviously, we will look at it. I apologize; I did not know that.

Senator **Roth**. I think it could be very helpful, because I think your time and attention are going to be on other things, and it could supplement very well the efforts of OMB.

Second, as you know, I am a strong believer that our trade apparatus is not adequate, and that if we are going to be competitive in this world market, we have to do a better job from the Government standpoint in promoting our trade.

I have proposed in the past, and this Committee has reported out in the past the creation of a department of trade, where you would combine USTR and the trade functions of Commerce. I think this is a very important question in this new global economy. Do you have any position on this?

Mr. **Darman**. I would be happy to take a look at that, Senator. I have, from time to time in the past when in Government—I must confess that in the past, I have tended to have the view that trade is so—let me put it another way around—that the variables affecting competitiveness are so far-reaching that to talk about a department of trade as if it would encompass them all would be to talk about something encompassing almost the whole Government. So if the interest is in getting USTR and Commerce better together, I think there is a lot of merit in that. When it aspires to getting everything related to trade in one place, then it seems to me it becomes unworkable, because you start taking things from every other department, quite logically, and throwing them in under the heading "trade," but then it becomes a political argument that produces nothing, and in the end, it would create such a giant bureaucratic monster under the heading "trade" that it would not serve the purpose you would intend.

So that if it is the narrower version, I would certainly be positively inclined. If it is the more ambitious version, I hate to be unambitious, but I would be less ambitious.

Senator ROTH. Let me say that there is no way you are going to get everything under one tent; I realize that as well. But I think we need to do a better job, and we would like to discuss that with you further.

Mr. DARMAN. I would welcome the opportunity to work with you on that, sir.

Senator ROTH. That is all I have, Mr. Chairman.

Chairman GLENN. Good. Two o'clock.

AFTERNOON SESSION

Senator LEVIN. This place is going to become a zoo. We had ducks, we had mares, we had mayors, we had—what else did we have? A few other animals.

Mr. Darman, this morning, I asked you what I considered some straightforward questions, hopefully hard-hitting questions about how we address the deficit, and how you define tax increase, and in that area you gave what I thought then were some candid answers to my questions.

Do you stand by those answers?

Mr. DARMAN. Yes.

Senator LEVIN. Have you said anything since then, outside of the hearing of this Committee, which was intended to modify your answers to those questions in any way?

Mr. DARMAN. No. Let me tell you what I did do, to which you may be referring, or you may have heard something about.

As I stood up from this table and turned to head toward the door, I was—as you can understand—surrounded by a semicircle of friendly reporters, and was asked a lot of questions and was foolish enough to start answering.

And at one point one woman reporter, in listening to my answers, in effect said, well, how do you square that with the response to Senator Levin in which you seemed to be opening the door to a tax increase, or taxes?

I said, "Seemed to be opening the door?" in disbelief, and I turned to others there, and I said, did you get that impression, and I have since asked several of them, and most of the reporters did not get that impression. I said I certainly did not have that intention.

He was asking a hypothetical question with certain very specific conditions, and I was foolish enough to answer the hypothetical question but the overall intent was definitely not to open the door. That is what I said.

And I had thought, at the time, that that is the way you interpreted it as well.

Senator LEVIN. No. I did not interpret. I heard you to say that under the conditions that I set forth, that you might recommend a tax increase to the President.

Mr. DARMAN. It would be irresponsible to say that there are absolutely no circumstances that one could conceive, in which one would ever recommend the possibility of a tax increase.

It is important that I state, so that no one misunderstands, in saying that I am just trying to be responsible. I am, in no way, trying to signal anything in that direction. Quite the contrary.

I am trying to say, with this additional comment, I thought the direction of all of my other answers to that question would have suggested virtually everything is a duck, and, to mix metaphors, ducks are off the table. No new taxes.

Senator LEVIN. You stated this morning, in answer to that question—I want to know whether you are standing by that answer—that there are some circumstances—and you listed a couple. One was war, and I said what about short of war? What about if there is a serious deficit problem which you believe threatens the economic well-being of this country, and there is no other solution that you see to it? Might you then recommend some tax increase to the President?

And I thought you said it is possible that you would recommend. Not what he would do.

Mr. DARMAN. Right.

Senator LEVIN. My understanding was that you answered that question, under those circumstances you might, which is keeping your option open?

Mr. DARMAN. Yes, but I—that is correct, and I stand by that, but I want to—if you would allow me—I stand by it completely. What I——

Senator LEVIN. You are not trying to signal anything, or read anything——

Mr. DARMAN. Yes. That is the problem, is that as you understand very well—better, I am sure than I—in spite of the fact that neither of us is trying to signal anything on this subject, the signals are being read. So it is important that I make clear what my intention is in signaling. I am trying to signal only that I am a semiresponsible character, and as to policy interests I have no policy interest in raising taxes. I do not foresee the circumstance in which I would make such a recommendation.

I have no current intention to make such a recommendation. I am not now making any such recommendation. I do not expect that there will be anything that looks like it received such a recommendation in the Bush budget presentation.

Senator LEVIN. Now give us the but.

Mr. DARMAN. There is no but.

Senator LEVIN. There is a but. You gave us the but this morning, and that is, but there may be circumstances—and we listed two of them—in which you——

Mr. DARMAN. Yes, but——

Senator LEVIN [continuing]. May recommend to the President that he do something in the area of tax increases despite his pledge. That is the but, if you want to give a complete answer to that question. Is that not what you told us this morning?

Mr. **Darman**. The two cases, though, if I might just suggest, do not prevail at the present time. We are not at war, which was one of my cases, nor do I believe that we are in a situation where we have definitively exhausted all opportunity for addressing this problem on the spending side. We are not in such a circumstance.

Senator **Levin**. Of course not, but my question to you was, if we arrived at either of those circumstances, in your judgment, would you then possibly recommend a tax increase to the President despite his pledge, and your answer was yes.

Mr. **Darman**. Correct.

Senator **Levin**. And I want to know—is that right?

Mr. **Darman**. Correct. And it is still yes. However, the signal dimension of that I have to make clear is not—I just think it is irresponsible of me to allow people, if I have any power to influence this—people behind me, if I have any power to influence this—it is irresponsible of me to allow them to create an expectation that goes beyond what you intend.

You are asking a very precise hypothetical. Some of the people who I believe may be reporting on this are not including all of the conditions that are in your hypothetical.

Senator **Levin**. Well, we made it very clear that in certain circumstances you want to keep your options open as to what you are going to recommend to the President-elect despite his pledge, and I thought you made that clear this morning, that you want to keep those options open in that circumstance.

And I want to make sure that you did not—after you left here—modify what you told us this morning.

Mr. **Darman**. I did not modify anything other than what I took to be a mistake in interpretation of the intent when I responded——

Senator **Levin**. Interpretation by some member of the press?

Mr. **Darman**. Yes, sir.

Senator **Levin**. Now, Mr. Darman, let me just ask you one quick question about our friends the ducks.

Would you consider the new coverage of State and local employees by the Medicare tax to be a tax increase?

Mr. **Darman**. No.

Senator **Levin**. Why?

Mr. **Darman**. Because I would not consider it a new tax.

Senator **Levin**. No; no. A tax increase.

Mr. **Darman**. Oh, a tax increase?

Senator **Levin**. Does that come within the pledge?

Mr. **Darman**. I think it would not. I am prejudging this. I have not specifically addressed it with the Vice President. I think it would not come within the pledge because that, like a number of others of these, has been proposed for several years by the Administration, in the policy with which the Vice President had previously been associated.

I think it should be reasonable to interpret his saying no new taxes to mean none beyond anything he may have been associated with before.

Senator **Levin**. So it is not that he will not support a tax increase; it is that he will not support a tax increase which he has not previously supported? Is that a fair statement?

Mr. **Darman**. Well, I cannot speak for him on this particular one, and I was just jumping, knowing that that had been proposed many times, and is in, again, the Reagan budget—jumping to a judgment that I am perhaps premature in jumping to.

Senator **Levin**. Well, but let me ask you this question: Is it a tax increase? Is it a duck?

Mr. **Darman**. I need some sort of new metaphor.

Senator **Levin**. No, I would like to stick to the old one because I think—I do not want you changing metaphors in the middle of the stream here. Is it a duck?

Mr. **Darman**. My strong inclination is to say it is not a duck, because this is the reason. These people are basically—the people in question are basically, by and large, beneficiaries of Medicare. They qualify not by virtue of their State employment but by virtue of the fact that for some few other years in their life, they will have done enough within the Social Security/Medicare system to qualify.

Senator **Levin**. That was not the definition of duck. Mr. Darman, the definition of duck was whether or not, in the common understanding, that new coverage of those employees by that tax is a tax increase.

Mr. **Darman**. I think——

Senator **Levin**. That was what duck is.

Mr. **Darman**. Correct.

Senator **Levin**. A common understanding.

Do you believe the common understanding is that that is a tax increase for them?

Mr. **Darman**. I believe that the general public would not view that as a tax increase in the sense that was intended, for the simple reason that this is a case where most people are paying for their future Medicare coverage.

A small portion of the population is getting the full benefit without the full contribution to the system.

Senator **Levin**. Well, they may support it, the general public may support it——

Mr. **Darman**. Right. That was the duck test.

Senator **Levin** [continuing]. But the question is, would they view that as a tax—no. No.

Mr. **Darman**. Yes.

Senator **Levin**. Not whether the general public would support it.

Mr. **Darman**. Yes.

Senator **Levin**. Now wait a minute. The general public would support people who are earning $1 million paying a higher tax rate than people who are earning $50,000.

Mr. **Darman**. But they would call that a tax.

Senator **Levin**. They would, and so the question is what the general public would call it—my question is——

Mr. **Darman**. Well, my——

Senator **Levin** [continuing]. Would they call that a tax increase for those people who are now coming under Medicare, paying that tax, but who before had not paid that tax? That is my question.

Mr. **Darman**. Sir, you are a better politician by far than I, and I would defer to the judgment of politicians since it is a fundamentally political question as to how they would interpret it.

My personal view is that it would not be generally viewed as a tax increase. That is my personal view. So I would not call it a duck.

Senator **Levin**. So you do not think the general public would view it as a tax increase?

Mr. **Darman**. Correct.

Senator **Levin**. That is fair enough. Fair enough.

Now Mr. Darman, I am, as you know, like others in this Committee who have made reference to the Stockman years, are deeply troubled by that period in the early 1980's, which have already been referred to, when the books were cooked at the OMB by the admission of the OMB Director.

I am troubled by the public statements of the then Budget Director Stockman to the American people and to the Congress, which were the basis of President Reagan's assurances that the deficits would come down despite increases in defense, and despite the 1981 tax cut.

The deficits not only did not come down, they grew, dramatically, and are still seriously with us. Unless we are willing to hide them, by using surpluses in the Social Security trust and other trust funds, whose use by us to mask the real deficit is rapidly turning them into abuse of trust funds.

You were deputy to the chief of staff at the White House during those years, 1981 and 1982, which have been referred to before by Senator Cohen, and others, and you were actively involved in the decision-making process.

As I indicated, I was, and am, deeply troubled by the lack of public candor and straightforwardness during 1981, and 1982 by the Director of the OMB.

My question is: Are you troubled by what happened back then?

Mr. **Darman**. Yes, I am troubled in some respects. I suspect from the tone of your question I may not be as troubled as you, but, yes, I am troubled in some respects.

Senator **Levin**. Would you tell us what troubles you.

Mr. **Darman**. It is a rather long history. Is there any particular part you would like me to focus on?

Senator **Levin**. Yes. Were you troubled by the fact that the books were cooked, that asterisks were put in there, magic asterisks, that $15 billion of phony revenues, or spending cuts were found?

Mr. **Darman**. I think——

Senator **Levin**. I just want to know, were you troubled by what happened by the representations to the Congress and to the public——

Mr. **Darman**. Yes.

Senator **Levin** [continuing]. By the Budget Director, that certain things were true that he did not believe? Did that trouble you?

Mr. **Darman**. I think—if I may say, Senator—I think that David Stockman rewrote his own history when he wrote that book, and not entirely accurately.

Senator **Levin**. I am running out of time. What troubled you about those times?

Mr. **Darman**. Well, let me—you are making a bunch of statements, if I may say so, sir, about presumed facts which are not facts.

Senator **Levin**. Strike my facts. What troubled you about those times?

Mr. **Darman**. It was not a cooking of the books as you are suggesting, and so I need to get that straight in order to explain what did trouble me.

Had there been cooking of the books, I would of course have been troubled by that. What there was at the time was a failure adequately to understand, in advance, what would be the adverse effects of the monetary policy that was being pursued.

There was a mistake made in the assumption about the velocity of money turnover in that original forecast, and there was a mistake, a political mistake made as to the feasibility of certain spending cuts.

There was a good-faith intention, I am convinced, having been there, to produce the additional savings, but they never materialized.

Now, at the time, I argued, internally—and this is, if not in his book, it is in other books on the period—that the economic assumptions may not have been internally consistent.

I argued, at the time, that the presumption or the political feasibility of the cuts was excessively optimistic, and the things which troubled me were more in the nature of mistakes of judgment, at that stage, than they were books being cooked.

I thought I was right; others thought they were right. I think events suggest that I was a little more correct than they.

Senator **Levin**. I am out of time. Thank you.

Chairman **Glenn**. Thank you. Senator Nunn.

Senator **Nunn**. Mr. Darman, just a few questions. I do not want to go over what you have already gone over this morning, but I am concerned about a couple of areas. One is the Export-Import Bank.

The Reagan Administration submitted a budget, as I understand it, the 1990 budget, providing no funds for the Export-Import Bank. In reaction to that, perhaps that, and in addition, maybe some financial pressures, the bank has cut off all loan guarantees, as I understand it, in the interim period.

Now, normally, Congress has supported that Export-Import Bank. My question is, have you looked at that from the point of view of the incoming Bush Administration? Do you plan to review it, and, if so, when?

Mr. **Darman**. We do plan to review it. We have not made a decision on that or any of the other items under review. The Vice President has said he does not want to make any decisions until he is actually President.

We have not yet made a recommendation on this issue, but it is subject to, specifically to the review. I may be wrong on the facts. I had thought that the budget preserved the guaranteed loan program and only eliminated funding for the direct loans.

Senator **Nunn**. You may be correct on that, but the direct loans is what I am really referring to, so I probably stated it wrong.

Mr. **Darman**. The direct loans are actually I think a rather small amount of money, but I am aware of the sensitivity on this issue.

Senator NUNN. There are some pending contracts right now. I know in my State there is a company, Scientific Atlanta, and there are others around the country, that are about to lose multimillion dollar contracts because of this cutoff.

With the trade deficit that we have now, and with the number of American companies that are competing against, in effect, foreign governments that are putting forth very strongly subsidized deals for foreign countries, we have some companies that simply cannot compete in the foreign market unless this program is continued.

But if it is not continued as a policy judgment, we still need some notice. To cut it off right in midstream here seems to me to be very questionable.

Mr. DARMAN. I understand, Senator, and all I can say is that the issue is under review. I understand the issue and it just has not been resolved.

Senator NUNN. Would it be one of the things you would look at, say, next week? Would you take a quick look?

Mr. DARMAN. Yes. Definitely. It is one of the ones that we have to resolve in our own minds, at least, before the submission of whatever it is that amounts to our budget or budget plan in mid-February or thereabouts.

Senator NUNN. Would you get back with us next week and sort of let us know some time by the end of next week what the status of the review is.

Mr. DARMAN. I would be happy to do so, sir.

Senator NUNN. One other——

Mr. DARMAN. Could I just note that——

Senator NUNN. Yes.

Mr. DARMAN [continuing]. Presuming I am confirmed, I would be happy to do so.

Senator NUNN. Presuming.

Mr. DARMAN. If not, I have no authority to do so.

Senator NUNN. If you are not confirmed, I would not expect you to get back.

The other question is on the sequester. There is a lot of talk around, and I think a few news articles that the Bush Adminstration does not fear a sequester.

From a defense point of view, a sequester affects outlays. Right in the middle of a fiscal year, or toward the end of one, beginning of another, to abruptly cut defense funding on the outlay basis as opposed to budget authority is the worst possible way to deal with defense, both from the point of view of damaging our security and from the point of view of having to save money in very foolish ways.

So, as Chairman of the Armed Services Committee, I can say that I think if a sequester is imposed, it is going to do serious damage to our Nation's security because you cannot make the cuts in a sensible way if it is done on an outlay, short-term basis.

Am I correct that there is no concern in the Bush Administration about a sequester, and, if so, have you taken into account the national security problem that would result therefrom?

Mr. DARMAN. Senator, I think you are not correct in assuming that there is no concern.

There is concern. The degree of concern tends to correspond almost exactly with the directness of one's association with national security.

I do not mean to make light of that. I myself think that the sequester is a foolish way to try to do defense budgeting, and I have suggested earlier today—and I apologize to others for repeating—but I believe that we should seek a negotiated agreement, and that a sequester is a very unattractive alternative, for a whole host of reasons, including the national security reasons that you have referred to, and including the adverse effects on reasonable defense planning and budgeting that you have suggested.

However, I have also said that if we cannot reach a negotiated agreement on a budget compromise, I do believe that the law requires us to move forward towards sequester and that we should do so. It is the law.

The alternative would be to amend the law, and there are two reasons that I think that that is unreasonable.

One, I think it would be an extremely bad signal for financial markets because as far as they are concerned we are simply redefining the problem, to call it not a problem on the deficit, and getting ourselves out of the box in that way, and they would be right in viewing it that way, if we were to somehow or other adjust the targets so there were not a sequester.

And the second reason is it strikes me as implausible, but maybe it is possible, that the Congress and the President could agree on a modification of Gramm-Rudman in the exact same context in which they could not agree on a budget compromise.

If they can agree on what it would take to modify Gramm-Rudman they can agree on a budget compromise, and a budget compromise is preferable to the sequester.

Senator NUNN. Well, the point is, I think the Department of Defense, if someone were told you have to make "x" number of cuts over a 5-year period, in both budget authority and the result from that would be cuts in outlays, then no matter how severe those cuts are in that respect, they can be dealt with so much better than if someone is told, right at the end of the year, that you have got to make $4, $5, $6 billion in outlay cuts which translates to laying off a huge number of people or cutting the readiness in a dramatic way, or in cutting three or four times the amount in budget authority that is required for the outlay cut.

You might have to make a $20 billion cut in budget authority in order to accommodate a $4 or $5 billion outlay cut, if that was the way you go, depending on whether you get the money from readiness, personnel or procurement.

So it would be a real lapse of Governmental leadership, both from the White House and the Congress, if that situation is allowed to develop.

Mr. DARMAN. Right. It would be a failure on both sides and we would pay the price that the law requires. All I am saying is the law requires it and if we treat that discipline as meaningless, we will not reach a negotiated settlement, in my opinion.

Senator NUNN. The other question—and you may have already covered this—is on biennial budgeting.

The Defense Department is required now to submit a 2-year budget and they did a good job of that before, but this gets to the previous question, too.

It is almost impossible for the Department of Defense and for our Committee, and our counterpart Committees, to be able to deal on a 2-year budget with the defense number, unless there is a 2-year number overall on entitlements, discretionary revenue, and so forth.

It seems to me that the evidence is clear, when Congress and the Executive Branch agree on those four numbers, as far as defense is concerned we can take that 2-year number and make defense expenditures much more efficient.

I just would like to inquire as to whether you are going to make an all-out effort in this negotiation with Congress to come to a 2-year number agreement?

Mr. DARMAN. Yes. I would prefer a 2-year agreement. In the best of worlds, I would prefer more than 2 years, but 2 years is a tough-enough aspiration in the current context, but for a host of reasons, including the ones you have referred to, I think 2 years makes sense.

Senator NUNN. Do you support moving the overall budgeting procedure to a 2 year rather than a 1 year?

Mr. DARMAN. Assuming it had other reasonable elements in it to allow the President to have some reasonable involvement, up front, in the process. I am alluding to the possibility of his having some role in the determination of whatever is the guiding joint resolution.

And assuming that there are not lots of loopholes designed to address the legitimate need for some flexibility, that turn out to be excuses for Government by constant supplemental.

Assuming you could design it in a way which met those tests—and I suspect you could—then I think it desirable, yes.

Senator NUNN. I believe Senator Sasser, you are next. Thank you, Mr. Darman.

Mr. DARMAN. Thank you, Senator

Senator NUNN. I look forward to working with you.

Mr. DARMAN. I look forward to working with you, sir.

Senator SASSER. Mr. Darman, in response to a question that was propounded to you by Chairman Glenn as to whether or not there would be substantial modifications to the Reagan budget by the new Administration, I understood you to say that we will respond to that, we will respond some time in February.

Now my question is this. Does that mean we are going to get a detailed and responsive Bush Administration budget proposal here to the Congress in February?

Mr. DARMAN. I think, Senator, that you will have a budget plan or response—I have forgotten what term you use—that would——

Senator SASSER. You used the term response, and I wrote it down because I wanted to come back to the question and be sure that I understood what you were saying.

Mr. DARMAN. I think we will have one that satisfies you, Senator. As you know, the definition of what is a budget for an incoming Administration is kind of loose.

President Nixon had a 12-page memorandum which everyone viewed as a budget. There has in fact never been a complete budget submission by an incoming Administration and there will not be by this Administration.

On the other hand, I do not think it will be at the extreme of as little as 12 pages, as was the Nixon example. It will be, I think, enough to give you a very clear sense of what the Bush priorities are, of not just what the aggregates are, but what particular programs he wishes to emphasize.

I think there will be enough there to give you an opportunity, if I may suggest, to be quite critical, at the same time as I think there will also be some things which I would think other people, and you, would view as quite sensible and reasonable.

Senator SASSER. I am not looking for something to be critical about. I am looking for a budget that we can work with and one that we can applaud, when it comes to Capitol Hill, to be quite frank about it.

Mr. DARMAN. Senator, being realistic, if I might—excuse me for interrupting, and I hope this does not count against your time because I am stealing it—but I would love it if we could do something that you would not criticize. But I do not think we will be able to meet that test. I do not want to create an illusion here.

We will be criticized, I feel sure. However, what I take to be important is that you have a clear enough notion of what we would wish to do, so that you feel you can move forward with serious negotiations.

Because what matters to us, and I think to the public generally, is that we get on with the process, and that ultimately, we do our best to meet the deadlines for producing a budget resolution that, hopefully, is agreed on an Executive-Legislative bipartisan basis, not just a partisan and Congressional basis.

Senator SASSER. Mr. Darman, during the campaign, the President-elect suggested that we might grow out of our budget problems through the imposition of what he characterized as a flexible freeze.

Now, frankly, I have some questions about whether or not that notion will work. Your predecessor at OMB, Jim Miller, said during his confirmation proceedings that it would be virtually impossible, in his judgment, to grow our way out of our budget problems.

First, have you ever seen, on paper, the actual specifics of the flexible freeze?

Mr. DARMAN. Yes. I have.

Senator SASSER. Well, can you tell the Committee how flexible freeze would impact on various parts of the budget since we already know that there are a number of components of the budget, such as interest on the debt, Social Security, Medicare, are in fact growing at a rate much higher than the rate of inflation.

That would not mean, would it, that Social Security and Medicare would be cut drastically, or would it?

Mr. DARMAN. No. Social Security would not be cut at all, and Medicare will continue to rise. Whether it rises as fast as is in some current services forecasts is a different issue. I would hope that it would not and we would take action to prevent it from continuing to experience the health-cost inflation that is about 2 to 3 times the rate of general inflation.

Indeed, if we do not stop that—if I might just say as an aside—this Committee is correctly, terribly concerned about all the kinds of issues that Mr. Bowsher has raised here.

If you want to talk about a legitimate major, long-term issue, our health-care system costs something on the order of 10 percent of GNP—you cannot long continue to have that grow at 3 times the inflation rate without it consuming the GNP.

And that is a major long-term problem which we do need to address. So I would expect that Social Security would not be touched, but I would hope that we could restrain the rate of growth in Medicare.

Now as to the flexible freeze more generally, I am unaware—I am not questioning, I am simply stating I am unaware of candidate Bush having said that we would grow out of the deficit, exclusively.

I had—and I may just have missed that statement.

Senator SASSER. Well, really, if I said that, I may have misspoken. What I was saying was that your predecessor said we could not grow our way out of it and——

Mr. DARMAN. Could I state what I think is——

Senator SASSER [continuing]. By implication I said that you might say that I said George Bush said that. I am not saying he did say we could grow our way out of it, but if you are going to have a freeze and that is going to take care of the deficit, obviously implicit in that, the growth is going to take care of the deficit, either down the road, or you are not going to deal with the deficit?

Mr. DARMAN. Well, I think the flexible freeze, at one level at least, is a simple mathematical concept with which one cannot quarrel as a matter of mathematics.

If you assume positive real growth—pick a number, whatever number—but positive real growth, if the economy continues to grow—we can fight about how much—but if it continues to grow, that growth is a combination of the inflation component and a real component.

It grows by both those amounts, some portion real. And you have restrained the rate of growth of spending to merely the rate of inflation, then——

Senator SASSER. But we are not going to do that with Social Security or Medicare.

Mr. DARMAN. No. But all I am trying to say—to finish this point—is that then it is the case that you will balance the budget, the lines will converge, and how soon they converge depends upon your real growth assumption.

So at that level of abstraction there cannot be any quarrel with the flexible freeze. The quarrel inevitably will come with the particulars, and you are quite right that Social Security is out of bounds, and interest, in the short-term, is uncontrollable, although if we have an effective program interest costs should come down substantially relative to what they would otherwise have been, and we will get some benefit from a reduction in the rate of growth and interest expenditures.

But the rest is all flexible, and the details that you are asking about seeing in mid-February will define how then President Bush would indeed allocate the pluses or the minuses, or at least to a very considerable degree it would.

It is premature for me to say how he is going to do that, for the simple reason that he has not made a number of the key decisions on that yet.

Senator **Sasser**. Well, I can understand that, but implicit in the flexible freeze is, if you have got certain programs that are growing faster than the rate of inflation, then other programs are going to have to be cut.

Mr. **Darman**. They are going to have to grow slower than the rate of inflation. That does not necessarily mean that they have to be cut. Some can still be growing in nominal terms, and others, Senator, naturally decrease.

There are some programs which just naturally decrease. For example, if you do nothing, and we continue to experience some recovery in the farm sector, the farm price support programs will decrease, doing just current law. They will actually decrease.

So that is additional money you have, conceptually, at least, to offset against some increase somewhere.

Senator **Sasser**. Now let me just go down a different track here, Mr. Darman.

A recent "Newsweek" story—and I am sure you are familiar with it?

Mr. **Darman**. No.

Senator **Sasser**. Well, it was in I think the January 16 "Newsweek."

Mr. **Darman**. Well, what is the subject, sir? What was the subject?

Senator **Sasser**. It suggests that you worked on a contingency budget plan that allows for a tax increase of some sort, and according to the story, why are you going to maneuver around here and put the blame for this tax increase on Congress, because Congress will not accept the budget cuts that are going to be sent up here.

And the story goes on to say that you had a hand in drawing the Reagan budget and the 1982 programs that Reagan proposed terminating in his budget, which Congress has rejected in years past—well, if we do not accept them this time, according to the Darman plan, we will come back for a tax increase and then we will be blamed for that.

What do you say about that?

Mr. **Darman**. Number 1, I did not see the story. I have been actually quite busy doing, among other things, responses to the Committee's questions, and a lot of other things as well.

I did not see the story. Number 2, there was a recent Fortune article which I also did not see, but I read about it in the Washington Post, and I got a letter from Fortune apologizing for it.

It said that I was a graduate of Yale, which I am not. It said that I was a deputy to Don Regan which I am not. It said I was a career civil servant, which I am not, and a number of other things.

This one is about as correct, on the basis of what you have said. I am completely unaware of any such contingency plan.

And as to having shaped the Reagan budget, I did see a piece in Newsweek which said I did that, and that is just factually incorrect.

I was not even announced until virtually everything was already decided in the Reagan budget.

Senator SASSER. Well, I am delighted to hear that, and Mr. Darman, I have been around here long enough not to believe everything that I see in print, but I did want to ask you about that. Well, I will leave it at that. Thank you.

Mr. DARMAN. Thank you, sir.

Chairman GLENN. We wish, in all this seriousness here, to take about a 2-minute break for a little different presentation here, and Mr. Darman, if you could come forward just a moment, please here.

This says, for those who cannot read it from the back of the room, that "The duck test is: if it quacks it's a tax." [Laughter.]

Those of you who have been here all day will appreciate, and the two little outriggers here that add to that are, number 1, "DOE cleanup," and the other is "Unfunded liabilities." And we would like to present this to you, here, from the whole Congress.

Mr. DARMAN. Thank you very much, sir.

Senator ROTH. You can still back off.

Mr. DARMAN. I will put it up here. [Laughter.]

Chairman GLENN. I do not know how we are going to be as serious as we want to be with that sitting there beside you today but——

Mr. DARMAN. I do not feel this is the most dignified moment in the history of OMB.

Chairman GLENN. But I was purely afraid if we waited too long, our cameras would fold up here, and that is definitely a visual, although the print media can describe it, but this one almost needs a picture to be appreciated.

Mr. DARMAN. Yes, sir.

Chairman GLENN. So, with our best wishes, and we will present that on behalf of the whole Congress.

Mr. DARMAN. May I assume that you do not wish a long acceptance speech?

Chairman GLENN. You can presume that with some accuracy.

Mr. DARMAN. I will just say thank you.

Chairman GLENN. Thank you.

Well, as difficult as it may be to get back to serious matters, following up on the previous questioning here: While on the campaign trail, President-elect Bush proposed several new Federal programs, and Deborah Steelman, the Bush campaign's top domestic policy adviser, estimated that these promises would entail approximately $5 to $6 billion of new spending a year.

Now private estimates have gone even higher than that. How are we going to find the $5 or $6 billion to pay for these campaign promises, or will they be broken promises?

Mr. DARMAN. No, that is just the exercise that we are going through at the moment, and it is, as I know you appreciate, extremely difficult. But we are taking those promises seriously, and we are going line by line to see if we can finance them, and it is inherent in the nature of the flexible freeze—as Senator Sasser was suggesting—that if something is going to go up, something else has to go up not so fast, and we are trying to square that circle.

We do not have the answers yet. It is definitely hard. There is no doubt about that.

Chairman GLENN. I followed along with questioning there where I should not have because of our early bird rule, and since I was here later this afternoon because of some other commitments I should have called on Senator Pryor next. David, go ahead, and I will get in mine later.

Senator PRYOR. Mr. Chairman, I will yield to you. You go ahead with your questions.

Chairman GLENN. No, go ahead.

Senator PRYOR. I will be glad to follow.

Chairman GLENN. No; no. Go ahead.

Senator PRYOR. Thank you very much.

Mr. Darman, I think that someone hired a consulting firm to prepare that rendition of the ducks and probably paid them $300,000 or $400,000 to do it.

Seriously, we are spending several billion dollars a year on consultants—we have gone over this many times—and also in contracting out.

My only question is this, and its probably not a question: I am just urging you to cooperate with this Committee on coming to grips not only with the definition but also coming to grips with what I think, and what I believe a lot of other members feel, is a tremendous waste of taxpayers' money for services not needed and an undue influence that many of these consulting firms and individual consultants are exercising in impacting on policy matters.

Second, that I hope that you will carefully review the proposed changes in a registration of consultants bill that we will have prepared soon. I hope that we can get your support.

I believe it will serve, for the first time, to find out who these consultants are, and not only if they are hired by our Government, but also what other governments and what other potential conflicts there might be.

I am just urging your support there. And thirdly, Mr. Darman, do you have any idea, at this stage, where the new President might come down on cuts in the agriculture budget?

Do you have any ideas where he might be cutting some of the programs?

Mr. DARMAN. No, I do not, Senator. We do have under review the cuts that are in the Reagan budget, but we do not have any decision about which of those, or which substitutes, if any, we would wish to advance.

Senator PRYOR. I think one of the specific areas of cuts, as proposed by outgoing President Reagan, was a 5 to 7 percent decrease in the loan rate in soybeans, and any time this happens—I might just say this—any time this happens we see additional hundreds and maybe even thousands of the soybean farmers go out of business. It is a very small program.

It is not subsidized like many of the other commodities. While, on the other side of the world, we see Brazil and Argentina begin planting anew increasing what they are growing for world production which will diminish our export potential in soybeans.

For example, in 10 years, we have seen 14 million fewer acres of soybeans planted in this country. Brazil and Argentina are taking up that slack and moving into that vacuum.

Those are the only points. I will not even ask for a comment. I would like to bring those to your attention as well as the adverse impact that they could potentially have.

Mr. Chairman, the green light is still on and the floor is yours.

Chairman GLENN. No. Fine. Senator Lieberman.

Senator LIEBERMAN. Mr. Chairman, I would be happy to yield to you, if you want to——

Chairman GLENN. No. Fine. I was just out of turn and forgot the turn here. I got carried away with all the ducks.

Senator LIEBERMAN. Thank you.

Incidentally, do not I remember reading that Churchill had some of his greatest thoughts while in the bathtub with a rubber duck? I do not want the duck to come off with a bad name from these proceedings.

Mr. Darman, you and I spoke a little bit this morning about management of governmental functions.

One of the areas that seems to me to be ripe for potential governmental savings and earning of more money is the management of the Internal Revenue Service. This would include more efficiently collecting taxes that are now uncollected, and also collecting what are now legally accounts receivable, which I gather run over $50 billion.

Do you have any thoughts about that?

Mr. DARMAN. I do not have thoughts about the second. I noticed myself, that the unpaid tax liabilities are rising by what struck me as a peculiarly large amount, and I have not had an opportunity to get myself educated on why that should be so.

With respect to the first part, on more efficient tax collection, that is—you are right—an important problem. I do think that some steps have been taken in that direction in the last few years, and as with everything else there are budget constraints.

IRS has actually been receiving budgetary increases in the last few years. They were very tightly restrained in the first 4 years of the Reagan Administration.

And since they have been receiving greater resource allocation I have been led to understand that the efficiency is improving.

I am certain there is a ways to go, and obviously, that is something we would be interested in. That kind of investment, to some degree, pays for itself.

Senator LIEBERMAN. Right. Mr. Bowsher yesterday surprised me by telling us that there are now $56 billion in accounts receivable.

Mr. DARMAN. That is roughly right. I thought it was $58 billion, but you are probably right, and that has been rising relatively steadily, and I do not know enough about that to know why that should be so. It could be that it is just naturally a percent of overall collections, but it looked to me as though it was rising faster than that, in the context where we have been improving our ability to collect.

Senator LIEBERMAN. Correct. That was my impression, too.

Mr. DARMAN. That is why I found it an odd number, and I am sorry, I have not had—I only noticed it, by the way, two days ago, so I apologize for not having gotten into it.

Senator LIEBERMAN. Not at all. I appreciate your interest in looking into it.

You mentioned before, that within the Bush team now, you are going over some of the affirmative promises of the campaign, and seeing what is possible and what is not.

One area which the President-elect spoke about that is a real concern to me, and of course to many others in Congress, is the protection of the environment.

As I go over the EPA budget, EPA is operating now at a level of real dollar support that is below what it had in 1981, and yet Congress has almost doubled the agency's responsibilities since 1981. This may be true of other Federal agencies as well, but it is quite clear with EPA.

In fact, I would not be surprised, in this session of Congress, if we again increased EPA's responsibilities. I want to ask you—as you begin to think about putting the budget together—what priority greater funding for environmental protection enforcement will have?

Mr. DARMAN. Bearing in mind the earlier point that the available funds are highly limited, within that constraint investment in the environment is very, very high on the list, and I am aware of the letter that you sent the incoming President on this subject, and I read it with interest, and we are definitely going to attend to it.

I would not wish to lead you to believe that we are going to fully satisfy your interests, but the President-elect is certainly disposed in the direction you would want, maybe not quite the degree, but certainly the direction.

Senator LIEBERMAN. So you would say that environmental protection, understanding that the incremental dollars are going to be limited, would be one of the higher priorities?

Mr. DARMAN. Yes; it would be. I say that tentatively. Again, I am in—as you understand—a very difficult position where every incoming Cabinet officer wants their own area to be a top priority for additional resources, as is normally the case.

Nobody wants any cuts, as is normally the case, and there are an awful lot of expectations out there, and all of these things somehow or other have to be balanced and fit into this rather tight shoe—excuse me for laughing. I could not think of the right metaphor. That one is certainly inappropriate.

Senator LIEBERMAN. We may end up with a shoe to give you tomorrow.

Mr. DARMAN. I hope not although I could use——

Senator LIEBERMAN. A tight shoe.

Mr. DARMAN. In any case, I would think that as we go through this process, the commitment to the environment on the part of the President-elect himself, personally, is strong enough so that regardless of what I would recommend, it will have a better chance of surviving than a lot of the other claims.

Senator LIEBERMAN. I appreciate it. Thank you. It is good news.

We spoke before—I think Senator Pryor and others—about how dependent the concept of the flexible freeze is on real growth of the economy.

I do not believe anybody has asked you yet, and I would be curious to know, what role you see for an affirmative Federal tax policy to stimulate that growth. I am thinking particularly of business investment tax incentives. For instance, the capital gains tax reduction that the President-elect spoke about in the campaign.

Mr. DARMAN. Yes. He did commit to reduced capital gains, and that is one of the items that is under review in this review we are trying to go through, and I think that there is general agreement that that is desirable among Bush economic advisers, and in the President-elect's own mind.

Senator LIEBERMAN. Do you think it would stimulate real growth and help us achieve the goals of a flexible freeze?

Mr. DARMAN. I do not think it will have a significant effect in the short-term in achieving the goals of the flexible freeze if you mean short-term deficit reduction.

I think its favorable effect is likely to be longer term, if it is correctly designed. It might have some short-term favorable effect just because there is at least an argument that can be made that revenue would increase, short-term.

But that is not its intention. Its real intention is to increase investment in the type of long-term investment that increases productivity which we were talking about earlier, and that should—as I suggested earlier, and others I know agree—that should increase the sustainable real-growth rate level relative to what it would otherwise have been.

But that would take time. That would not be a short-term benefit, in my opinion.

Senator LIEBERMAN. On that note, would you favor a tax policy that would discourage short-term transactions in security investment?

Mr. DARMAN. As a general matter, my personal prejudice would head in that direction. On the other hand, I am not speaking for the Bush Administration on that, it is Secretary Brady's area of responsibility, number 1, and number 2, you can get a lot of people to agree with that in principle.

When you start to look at the way in which to design a specific tax law change to try to accomplish that objective it starts to get much more difficult, either substantively or politically. But I think that there is a legitimate problem there, and yet how best to address it through tax policy is tricky, and I am happy to say, though, it used to be in my domain. It is now in the Secretary of the Treasury's.

Senator LIEBERMAN. Let me ask you one more question, which may be in his domain as well. Are there any particular tax-incentive cuts which would help stimulate real growth of the economy, that you would recommend or that you expect the President-elect would recommend to us?

Mr. DARMAN. Did you say tax-expenditure cuts?

Senator LIEBERMAN. No, tax cuts.

Mr. DARMAN. Oh, tax cuts.

Senator **LIEBERMAN**. I am thinking, again, along the lines of specific ideas—investment tax credits, things of that sort.

Mr. **DARMAN**. No, I personally would not—I think it extremely unlikely to imagine that the Bush budget would include an effort to restore the old investment tax credit, or to change depreciation schedules from what they were set at in tax reform.

I realize this is a very contentious issue and, as you know, many Republicans believe that we should be increasing the accelerated nature of depreciation in the investment tax credit, and many of them are upset with tax reform. Actually we have one here who is upset with tax reform on these grounds, and I believe there is a legitimate difference of view on this point, and naturally enough being associated with the tax reform side of the balance, I think what we did in 1986 on that score was right, and my own personal view—and I respectfully differ—is that the investment tax credit really does not increase—at least the one we had—really does not increase, in any significant way, long-term growth.

Senator **LIEBERMAN**. Let me rephrase the question, and just ask you one last one.

What can the Federal Government do to help stimulate real growth of the economy?

Mr. **DARMAN**. Endorse the Bush program, which we will all see in mid-February. I think we have got to get the deficit down, obviously. I believe, as I have suggested earlier, over the longer-term, we have got to improve productivity and the way to do that is to improve our education system.

We will have a debate about how best to do that. I do think we have to improve applied civilian R&D, as I have suggested, both publicly directly and privately directed.

And I think particularly the management of America's service sector has a lot to do, that is not directly influenced by public policy, to try to improve productivity in the service sector.

So, if we have responsible fiscal policy tax policy I do not think has to change a great deal. Capital gains would be useful. R&D credit on a permanent basis would be useful, and some sort of significant improvement in the productivity of our education system, however we best get that, that those are the keys, at least in my view.

Senator **LIEBERMAN**. Thank you.

Mr. **DARMAN**. Thank you.

Chairman **GLENN**. Thank you. Following up on Senator Lieberman's line of questioning, a Wall Street Journal article from last November described how you, "helped plan the Reagan tax-cut strategy that led to an unprecedented budget deficit."

In fact the article quoted you further as saying:

> Look. I contributed as much as anyone to the cause of the problem. I was Deputy Chief of Staff at the White House for the 4 years that we did this.

Was this an acknowledgement that the Reagan tax cuts were a mistake?

Mr. **DARMAN**. Senator, I read that article also. I do not remember. I know I did not provide that quote directly. Does it say to whom I said that? I do not recall saying exactly that. But it is neither here nor there. I can imagine saying something like that.

I just want you to understand that I do not believe I said exactly that, but if I did say it, fine. I will explain it.

Chairman **Glenn**. No. What it says, in a little more full context, is this, and I will read the entire paragraph.

> In a way, the task facing Mr. Darman brings him full circle. Eight years ago he helped plan the Reagan tax-cut strategy that led to unprecedented budget deficits. Look. I contributed as much as anyone to the cause of the problem, Mr. Darman acknowledged last year. I was deputy chief of staff at the White House for the 4 years that we did this.

It goes on to talk about Mr. Stockman and his book, to some extent.

Mr. **Darman**. Well, it is apparently a quote from me from what would be about a year and a couple of months ago.

I do not recall having said that, but let me in any case say that I——

Chairman **Glenn**. Well, whether it was or not, what is your view? Were the tax cuts a mistake, looking at them now?

Mr. **Darman**. I thought, at the time, that the initial tax cut in 1981 had too much revenue loss associated with it, and I, by the way, at that time was in a very small minority with respect to that judgment, and in some respects I think that I was wrong.

In others, I think I was right. I, at the time, felt that it was likely that the Congressional bargaining process would weaken the initial Reagan proposals. That is, make them less prone to, quote, lose revenue. And I was wrong on that political judgment.

What the Congressional bargaining process actually did was it combined several different theories of tax-cutting and did all of the above.

For the people who like marginal rate reduction it had a big marginal rate reduction. For the people who like more accelerated depreciation it had more accelerated depreciation.

For the people who like special credits for certain kinds of farm equipment it had credits for certain kinds of farm—you can go all the way down the list.

And the list got longer and longer in the Congressional bargaining process, and I thought that it had gone too far because I thought it was unlikely we would get the necessary spending cuts to go with it.

And it did in fact reduce revenue to about 18.5 percent of GNP. The original Reagan cut did not do that alone. A big contributor to that was the recession that also had an effect of permanently lowering the revenue base when that was combined with indexing.

At any rate, the original September 9, 1980 Ronald Reagan economic program projected revenues as a percent of GNP at 19.5 or 19.6 percent, and after the 1981 Act, and the recession, revenues dropped down to around 18.5 percent. And of course spending did not come down to anything like that level.

It stayed in the 22 to 23.5 percent range. And so I was subsequently associated with an effort at correction which some people considered heretical but which became law, which was TEFRA, in 1982. The Tax Reform Act in 1982, which restored some of that revenue base.

That plus a 1984 Tax Act change, and the Social Security change in 1983 have brought revenues back up to about 19.6 percent, which is roughly where they were projected in the original September 9, 1980 Ronald Reagan program.

So it was a mistake that was made more in political terms, I think, than economic terms, although it had economic consequences.

The political mistake was there was a misjudgment on the question of just how much Congress would like tax-cutting. It turned out a lot. And there was a mistake about how much Congress would like spending reduction; it turned out not quite as much as had been assumed.

Chairman **Glenn**. Yes. We may want to get back to this subject later.

One other thing before my time runs out here, and this moves into an area that Senator Levin was talking about earlier. I have been concerned about some of this, too, and I would like to have you clarify what your relationship with Mr. Stockman was in respect to some of these things.

In his book—and I think this is worth quoting—this is out of the Wall Street Journal article about the book. This is a Journal article:

> In his book Mr. Stockman tells a revealing tale about Mr. Darman in July of '81 when it was becoming clear that the tax cut moving through Congress was far bigger than any possible spending cuts and would lead to giant deficits.
>
> Mr. Stockman recalls that he and Mr. Darman were walking in the White House parking lot discussing whether to try and sink their own tax bill.
>
> I do not know which is worse, Darman said: winning now and fixing up the budget mess later, or losing now and facing a political mess immediately.
>
> Mr. Stockman writes that he rejected both options, hoping to spur Mr. Darman to come up with another of his clever stratagems. For a moment Darman got more serious than I had ever seen him, Mr. Stockman writes. I thought he was about to unload a whole new game plan to rescue the Tax Bill from the insanity which had just been reached.
>
> Instead Mr. Darman shrugged, according to Mr. Stockman: Let's get at it, he urged. We win it now, we fix it later.

Now I do not know how accurate this is. But it is very disturbing to me if it has any semblance of truth to it because it means that politics, above all, was the rule then.

That politics was to prevail, we had to have a win. That was it, it did not make any difference what the impact on the country was going to be. The important thing was to win one for the Gipper. And that is what we were about at that time.

Now I would appreciate you giving us your philosophy as to this matter. As you know, we have some scars left over on this Committee from back in those days because Mr. Stockman sat in the same chair you are in right now, or I presume it is the same one—it was in the middle of the table anyway—and deliberately lied to us.

He did not just mislead us. He actually gave us false figures. Now that cannot happen if we are to have a Government that works under our constitutional system. It just cannot happen.

So I would appreciate your comments on that and what your current views of such shenanigans are.

Mr. **Darman**. Thank you, Mr. Chairman. The version that you read from the Wall Street Journal I think is correct as a representation of Stockman's book.

I do not believe that Stockman's book is fully correct in characterizing what I said at the time. I think he invented, or his editor and he invented a little bit there for dramatic effect.

I do not believe I had that punch line. In fact if you think of the ordinary way of talking, it's unlikely that at just that moment I had such a good punch line, whatever it was.

Chairman GLENN. The quote was: "Let's get at it, we win it now, we fix it later."

Mr. DARMAN. Right. Yes. It's a good line. I do not believe——

Chairman GLENN. Is it yours?

Mr. DARMAN. No, I do not think so. But let me, nonetheless, confess to having had something like the thought. I do not want to pretend that I did not.

But let me also, if you would allow me, try to explain it.

He and I were talking at the time not about winning this and causing some large economic problem that would be fixed two Administrations later, which is the way the Wall Street Journal article acts as if we were thinking.

What he and I were specifically talking about, and by the way, we were discussing with some members of the Senate and the House, was going ahead and getting the tax and budget bills enacted, and then, in 1981—1981—having a second budget resolution that would adjust for what had been the overaction on the tax reduction side and underaction on the spending side.

We were planning to have a—it was called at the time a fall offensive, of 1981, to be the way we corrected for what we thought had been left undone or overdone in what was then almost summer of 1981.

So we were not talking—well, if the thought, and I think the thought was there—win it now, fix it later—the later in question was later in 1981. It was not later, way down the road.

And as an interesting footnote to that bit of history, we were well down the road to actually negotiating a successful second budget resolution when, one day, right in the middle of the discussions, the Atlantic Monthly article arrived, and the credibility of the OMB Director was at least temporarily destroyed and the ability to negotiate anything in that context was also destroyed.

Chairman GLENN. Well, did you concur with Mr. Stockman's misleading us on the Committee, and in the Congress?

Mr. DARMAN. No, I definitely did not.

Chairman GLENN. Were you a party to that decision or did you counsel him for or against doing that?

Mr. DARMAN. I never counseled him or anybody else to mislead the Congress, and if I might say, Mr. Chairman, I have the advantage and disadvantage of having testified before the Congress many, many times since 1970, from many, many different departments.

I would question whether anybody who would go through that entire record will find anything in that whole record that misled the Congress in any way.

I mean, I am not an unknown quantity here. I am not claiming I do not have faults. I do have faults, obviously, and many of them are referred to in those articles, but one of them is not misleading the Congress.

Chairman GLENN. All right. Senator Roth. My time is up.

Senator ROTH. Well, I do not want to reopen an old political argument, but I do think it is worth repeating—and I agree with much of what you said, Mr. Darman—that the 1981 tax cut went much beyond what anybody anticipated because it became a little bit of a bidding war between the House and the Senate.

But I would also respectfully suggest that anyone who opposed the 1981 tax cut should introduce legislation to replace it. I think that would mean we would raise a 25 percent across-the-board tax increase; instead of maintaining the rates which have resulted in the longest peace-time growth in the history of the Nation, created 19 million jobs, and I might say has been the engine of growth not only for this Nation but for much of the Free World.

Let me just make one further observation or comment, Mr. Darman.

As you may know, I was the author of a bill which would open a 1-time voluntary window to allow Federal employees near retirement age to retire early. We call it "early out."

And this proposal had the potential to save billions of dollars while at the same time providing greater opportunity for younger Federal employees, women and minorities.

At the same time restrictions were built in to allow agencies to retain their most valuable employees. Now I mention this piece of legislation, because I think it is worth considering at this time because it can result in very substantial savings.

It does not necessarily have to be exactly in the form we proposed the last few years, but the good thing about it was that the Federal employees were very enthusiastic about it because it permitted many of them to retire early, and yet, at the same time, by freezing employment, it meant for a substantial savings.

I got the idea from some of our larger business organizations which found, because of computers, modern technology, and so forth, that there was a different mix needed today.

And I would suggest that we ought to take a hard look at this proposal because I think in order to secure the kind of professional employees that we are going to need for the 1990's, we are going to need to slim down the work force and this provides an opportunity to do it in such a way that the Federal employees like it, it saves for the taxpayers, and it may provide some of the money you need for the deficit.

So I would urge you to take a hard look at the proposal.

Mr. DARMAN. I definitely will, Senator Roth, and I might say with respect to the first half of your comment, lest there be any misunderstanding—I certainly would not propose going back on the rate cut, and I was someone who needed to be educated on this, or at least I think so.

I was not initially among the supply-side advocates of the rate cut, but the more I think I learned about the subject, and the further I got into some of the theory of tax reform, the more positively I became disposed toward the value of substantial across-the-board marginal rate reductions.

So I am now an enthusiast for that which I was not so much back there in 1981.

It was in 1981, though, not nearly that, but it was, as you referred to, the process of bidding, in the bidding war, that resulted in the excesses of that Tax Bill, largely corrected by subsequent actions.

Senator **Roth**. Yes. I agree with that. Thank you, Mr. Chairman.

Chairman **Glenn**. Senator Levin.

Senator **Levin**. Mr. Darman, on the subject which our Chairman talked to you about, and which we were talking about when my time ran out last time. I want to read you another portion of Stockman's book.

It says:

> Yet, since no one in the White House wanted to propose the first triple digit budget deficit in history, I finally did what the Atlantic story seemed to accuse me of. I out and out cooked the books.

Now this is Stockman talking about himself:

> I out and out cooked the books, inventing $15 billion per year in utterly phony cuts, in order to get Ronald Reagan's first full budget below the $100 billion deficit level.

Was it your testimony that the books were not cooked, that Stockman was wrong when he said he cooked the books on that $15 billion item?

Mr. **Darman**. Yes. It is my personal view, and I realize it runs against his book. My own recollection——

Senator **Levin**. Against his interest, too, doesn't it?

Mr. **Darman**. Well, he is a complicated person and——

Senator **Levin**. Does it make sense, under any psychological theory, that somebody says he cooked the books, if he did not?

Mr. **Darman**. Yes.

Senator **Levin**. Would you give us the psychology——

Mr. **Darman**. It is not a theory but he has—he is a friend of mine, and what I am about to say is not intended in a spirit of, let's say, profound criticism.

But he has a habit of wishing to think that he understands everything and can, to some degree, at least intellectually, see his way to controlling most everything. It is very hard for him, in my opinion, when writing that book, to see himself as having not fully understood what he was doing.

My personal view is that he did not as fully understand what he was doing as he pretends he did, and that he has a greater personal need to seem to be intellectually in command than he has a personal need to seem fully responsible in relation to certain ethical standards.

I think he makes himself out to be a somewhat worse person than he is in that book. I mean, I am not here to try to praise him, and I realize it is against my interest to do so, but I think he attributes more rationality to himself and more understanding to himself than he in fact had at the time.

The other possibility is that he conned me, too, and that is quite possible, but maybe it is just my psychological weakness. I would prefer to believe I was not conned.

Senator **Levin**. Are you familiar with those $15 billion in cuts that he is referring to?

Mr. **Darman**. No. I am familiar with the following. The unidentified savings line was there. I would not call that phony cuts. Those were transparent. They were not there.

Senator **Levin**. Transparently non-existent?

Mr. **Darman**. It said so. It said "to be identified later."

Senator **Levin**. He is not referring to that. He is talking about utterly phony cuts to get you below the $100 billion. You do not have any idea what he is talking about?

Mr. **Darman**. No. I do not.

Senator **Levin**. You were comfortable with the cuts that were in that budget——

Mr. **Darman**. I was not. As I have suggested earlier I thought that they were not politically feasible in many instances, and I believe that that turned out to be a correct judgment.

Senator **Levin**. Other than that, as to their political feasibility, you believed that they were real cuts?

Mr. **Darman**. To the best of my knowledge the estimates, on the cutting side, had been honest. I was aware of a lot of dispute on the revenue side. I was not aware of a dispute on the estimating side of the savings from proposed cuts.

Senator **Levin**. Going back to the Wall Street Journal article which Senator Glenn referred to, you said that you did not precisely say you do not remember the following: "Look. I contributed as much as anyone to the cause of the problem." But you indicated you might have said something like that.

Mr. **Darman**. Yes, I think so.

Senator **Levin**. Assuming you had said something like that, have you told us what you felt your contribution was to the problem?

Mr. **Darman**. Not explicitly but we have somewhat covered it. I do think that I helped get the 1981 bill through and determined to bargain to get it through, and to the extent that that contributed to the problem, then I certainly contributed to the problem.

I do not believe that that was anywhere near as much of a contribution to the problem as some have suggested, but it did make a contribution to the problem and I certainly made a contribution to its enactment.

Senator **Levin**. And if you had to do it over again you would do it differently?

Mr. **Darman**. No, I am not sure that I would, Senator.

I did not get chance to explain to Senator Glenn—or I did get a chance but I did not do it. You know, the part of that statement that's attributed to me, a portion of which I think is invented, that sort of says "win it now, fix it later"—where the implication is all you care about is partisan politics, that is not characteristic of me.

Most people who know me would say that's not characteristic. Indeed, a great deal of the criticism of me—of which there is plenty—is that I am not sufficiently partisan.

And the reason that I thought it very important to win in that context was—and I by the way would think so again for a President Bush—is that I think it is very important for a presidency to establish a degree of—the perception of its strength.

The presidency is a much, much weaker institution than I think most people assume it is, and I think if you start an Administration with a highly visible, highly advertised loss, you permanently weaken that presidency for whatever else it might do.

So it is not for partisan reasons; it is for what you might consider more parochial Executive Branch reasons, that I think it quite important that once you start down a path, if it is a very high-stakes path for the presidency, you attend to the interest in preserving or enhancing the power of the presidency because if you do not, the consequences are significant weakness.

And I do not think that that is desirable. By the same token, I was trying to suggest at the time, it would be totally irresponsible to say win at any price, or win without any regard to adverse effects, or win without any attention to the need to correct what mistakes you might make in the process.

And then what I was trying to do, going back to that, is say yes, win, not for partisan gain but because we cannot cripple a presidency—win—and let's go fix it in the Second Budget Resolution which, at that time was in October, as I recall, which was only a few months away before this would ever have become law.

Senator LEVIN. If I understand your answer, then, to my question, when you said something like, or you might have said something like—look, I contributed as much as anyone to the cause of the problem—and then I ask you if you had to do it over again would you do it differently, and you said no, in effect you are saying—and if I had to do it over again I would make the same contribution to the problem?

Mr. DARMAN. And if I might——

Senator LEVIN. For the reason you just gave?

Mr. DARMAN. Correct, and if I might——

Senator LEVIN. In order to enhance the power of the presidency?

Mr. DARMAN. May I——

Senator LEVIN. Is that a fair summation?

Mr. DARMAN. In order to protect the power of the presidency. May I add one thought, and I would hope you might at least consider giving me credit for this, as I have certainly taken a lot of blame for it. And I believe I deserve some credit from what appears to be your perspective.

I deserve criticism to the extent that you wish to make it for contributing to the problem, but if you view that as having contributed to the problem then I at least deserve some credit, although others would give me blame for this, for contributing, probably more importantly, to the enactment of TEFRA, to the Social Security compromise of 1983, to the bipartisan budget agreement of 1984, and to the tax adjustment that was made in 1986.

It is not as if I have sort of said win one, see you later.

I have taken a very substantial degree of criticism from many people who wish to see taxes left at the 18.5 percent level for turning around and helping do exactly what I said I should do which was fix it.

Senator LEVIN. Is the problem that you were referring to, or might have been referring to, the deficit problem?

Mr. DARMAN. Yes.

Senator LEVIN. All right. That same Wall Street Journal article, in November of 1988, said that "Before joining the Bush campaign

Darman privately argued that both tax increases and Social Security changes were needed to solve the deficit problem."

Is that an accurate statement?

Mr. DARMAN. I have done that at times.

Senator LEVIN. What is the most recent time?

Mr. DARMAN. The most recent time I believe I did it was probably right after the crash in October of 1987.

Senator LEVIN. You have indicated in your written answers to our questions, that Treasury receipts are projected to remain stable at 19.5 percent of GNP from 1990 to 1994, and I think you have said the same thing today, 19.6.

The question is: Were you among those who believe that it is difficult to see how the United States can keep its commitments as a great power with a revenue base of 19.6 percent of GNP?

Mr. DARMAN. Yes. I was among those. I think that those words may be quoted from an article I drafted in around 1977.

Senator LEVIN. How recently have you been among those?

Mr. DARMAN. Not so recently. We have had a big defense build-up since then and——

Senator LEVIN. Well, you have not within the last couple years felt that?

Mr. DARMAN. No, we have had—as I was about to say, I think in the context of that article you will see it says we need a big defense build-up.

This was back in the mid-1970's, and I do believe we did need a defense build-up. We have since had the defense build-up.

I did not think, at that time, when I wrote that article, that you could get the defense build-up and continue to do the things that I thought the political system likely to do for much less than around 21–22 percent of GNP.

And that was probably right, except what we now find is we have had the defense build-up, or at least a substantial portion of it, and spending as a percent of GNP is now coming down, and with continued economic growth we can probably finance everything that I think we would need to do, at something pretty close to the 20 percent of GNP level.

Senator LEVIN. My time is up. Thank you.

Senator PRYOR. Mr. Chairman, at this time I have no further questions.

If I may—and this is not a question—I would like to take just a moment to commend our Chairman.

You talked earlier today, before the lunch hour I believe, Mr. Chairman, about nuclear waste disposal. You have been talking about this issue for a decade and none of us have been listening to you.

Mr. Darman, I am like you, I do not know much about it, but I tell you this. John Glenn has been on this issue for a long time, he has seen it and he understands it. When he talks about a pending crisis, I do not understand enough of it except I believe him. I think that he is absolutely correct.

I just wanted to take a moment to associate myself with his remarks and to commend him. I yield back the balance of my time, Mr. Chairman.

Chairman GLENN. Those are very kind words. Thank you very much, David. I appreciate it very much. I guess I am next in line.

President Reagan recently attributed America's budget deficit crisis to what he calls the Iron Triangle, namely, the media, special interests, and Congress.

Do you agree with that?

Mr. DARMAN. It does not sound like a complete explanation.

Chairman GLENN. May I presume your answer is no, you do not agree with that assessment?

Mr. DARMAN. Well, I think I could explain the way in which each of these elements contributed, but when I was done, I do not think we would have the whole explanation.

I think we probably need something larger than a triangle to explain it.

Senator LEVIN. Different shape you mean?

Mr. DARMAN. We have to have—yes, it would be at least——

Chairman GLENN. Like a pentagon?

Mr. DARMAN. No, it would have to be——

Senator LEVIN. At least a square.

Mr. DARMAN. It would have to be at least a hexagon, I would think. There are quite a few contributors to this problem, but certainly, these three would make any short list. In that sense I would agree with the President.

Chairman GLENN. I also would agree that if we wanted to make the triangle into a square at least, why, we have to add the White House and get that involved also.

Mr. DARMAN. That would probably make a list, too.

Chairman GLENN. It is the President's view that the media, special interests and the Congress have caused this problem. Can you tell us which components of the triangle have kept President Reagan from offering just a single balanced budget in the last 8 years? We have not had one submitted yet.

In fact, 3 years in a row they were the biggest unbalanced budgets in all of America's history.

Mr. DARMAN. Well, I think that what President Reagan would say would be that he did submit a balanced budget proposal but the year in which the balance was to be achieved was with each budget submission, each annual budget submission, generally speaking, moved out a year.

Chairman GLENN. You mean subject to Gramm-Rudman-Hollings, or what?

Mr. DARMAN. No. Just that he did submit budget proposals that did come down to zero, 3 or 4 years from the year in which he was then submitting the budget, and he did that many times.

The particular year kept moving, and I believe what he would say is that among the reasons it kept moving were the inability to enact the proposals from the previous year.

And I think that that is a respectable point of view.

Chairman GLENN. Well, where did we go wrong, then, because in 7 of those years Congress appropriated less money than President Reagan asked for?

Mr. DARMAN. Well, the most important way in which we went wrong is in failing to anticipate the depth of the recession in 1982, and that failure was shared by the Carter Administration, the Reagan Administration, and the blue-chip economists.

That is what lowered the revenue base very substantially for this whole period, and the adjustment has not fully been made since.

Chairman **Glenn**. One of the most difficult areas is one you briefly addressed earlier in regard to economic assumptions we make on all these projections.

And they are so crazy nobody in town believes any of them. I happen to think that our CBO projections have come down more accurately than any others around here, but maybe you can contest that. I do not know.

But can you tell us, going into your new job, for which you are undoubtedly going to be approved, what economic assumptions you are going to make in putting this budget together? I think the ones in the Reagan Administration and the projection, a 5 year projection, that they have made go down to ridiculous numbers.

I just do not see how anybody can take them seriously. For instance you talk about interest rates of 1.5 percent out there.

Now does anybody really believe that the interest rate will be—I think that was the figure—1.5 percent in 1994. Do we really believe that?

What economic assumptions of employment, interest rates, and growth do you plan to use in your economic assumptions? Can you share those with us today?

Mr. **Darman**. I cannot share them but I can say quite a bit about it that comes close to sharing them.

First of all, I think that the outyear interest rate number that you are using is the so-called real interest rate.

The nominal interest rate minus the projected inflation rate. And that real interest rate is one that has been achieved before in the post-war period for some period of time, in the 1950's and 1960's, and——

Chairman **Glenn**. But in the assumptions made with this Administration, do they not also show the inflation rate going down?

Mr. **Darman**. Yes.

Chairman **Glenn**. So that artificially alters the 1.5 percent. You are correct in stating what the figures are.

Mr. **Darman**. But more importantly—not necessarily more importantly—I think that there's obvious reason to question the presumption of a steep interest-rate decline.

It is not a forecast. What it is is a statement by the existing Reagan Administration, that if the program that they have written down on paper were enacted, they would then project that there would be a corresponding decline in interest rates of the type that they describe.

That view I think is held by most of the Bush economic advisers. I believe a view something like that would be held by the Chairman of the Federal Reserve, although obviously you would ask him directly.

Now it is a guess. As I was suggesting earlier—I think, Mr. Chairman, you may not have been here—I do not believe macroeconomics science is worthy of the name science, and, on the track record—on interest rates, at times the Administration has been better, at times CBO has been better.

On nominal growth of GNP both CBO and the Administration have been off, in the period of the 1980's, by an average of 2.5 percent, which is an enormous amount to be off. It is the whole difference between—you know—what you care about having, and what you would prefer not to have. It is not some small difference.

And I think to some degree one is obliged to step back, and rely, to some degree at least, on common sense. Is it reasonable to think that we could achieve a long-term sustainable economic growth path of about 3 and a little percent? I think the answer is yes. We have done so to date, from the 1950's to the present. So that one is not out of whack.

It is perhaps a little more optimistic than some, but it is not out of whack, and there are some blue-chip economists who would say definitely yes. The interest-rate assumption is the one that you would probably get more of an argument on and it is the larger difference between CBO and the Administration, and that really is, at least in my opinion, not a matter of science. It is a matter of guessing the psychology of markets upon seeing a credible deficit reduction program enacted.

There are, I think, respectable people who would say: If we could come together on a credible deficit reduction program, multi-year, and enact it relatively promptly, there would be a significant favorable effect on interest rates, and that strikes me as commonsensical.

Whether it is in exactly the amount in that budget or not, I personally would not pretend to ever give anybody a reliable answer about, because I just do not think the science is up to it. But is the direction right, if we reach an agreement? I think the answer is yes.

By the way, CBO does not argue one way or another on that point. CBO simply does not make the assumption that there will be such a program enacted. I do not know what their answer would be, if we were to ask them if such a program were enacted. Forget whether you think it will be or not. If it were enacted, would you think that interest rates would come down more? I think that they would say yes.

Chairman GLENN. You just came from a very responsible position. You were a managing director at Shearson Lehman. How much were you involved with their economic forecasting?

Mr. DARMAN. I did not have anything to do with their—as you can tell from my comments, I do not believe macroeconomic forecasting is a responsible science yet. I am very hopeful for the future for it, but there are some inherent methodological limitations.

It is impossible to do planned variations, anything remotely like experiments from which to learn. You cannot take a country and simultaneously try three different economic policies to conclude things. So you are not dealing with an experimental science.

Chairman GLENN. The latest Shearson Lehman forecast for the real GNP growth is 3 percent in 1989 and 2.4 in 1990, both considerably lower than the Reagan Administration is now predicting. Which forecast do you think is more accurate?

Mr. **Darman**. I have no idea at that level of specificity. I really am not trying to duck. But let me make one further point, if I might.

Chairman **Glenn**. You are not trying to what?

Mr. **Darman**. Duck. [Laughter.]

Thank goodness I said it the right way.

If you look at the blue-chief economists and their forecasts, you will find that I think there are about 35 of the 50 who are between the 2.4 you refer to and 3.1. About 35 of the 50 are clustered all within half a percentage point of each other for which I just repeat the general observation. These guys are frequently closer to each other than they are to being right. I mean, sorry, but it is a demonstrable fact.

Chairman **Glenn**. The differences are very troubling because according to——

Mr. **Darman**. But the differences are small.

Chairman **Glenn**. Yes. But, according to CBO, just a 1 percent error on the high side in forecasting GNP leads to an increase in the budget deficit of $6 billion in 1990, $21 billion in 1991, and $41 billion in 1992. These are enormous differences off of a 1 percent difference.

Mr. **Darman**. Yes, sir, but may I just point out: Let's suppose CBO were right on real growth. Now, let's take CBO's tax assumptions, and a tiny little change—they are about a 10th of a percentage point off on the personal income tax and on the corporate income tax collection—expectation, percentage collection.

A 10th of a percent higher than the Administration. That little teeny change, using the CBO numbers, would improve the budget deficit by $11 billion. So with one hand we pretend to be extremely scientific and we move the 1 percent down, and the other, we just make a tiny little technical change and switch a 10th of a percent up—we have done the funny thing of actually decreasing the deficit.

Now that is why I think that too much pretense that we are dealing with a really responsible, definitive set of judgments here, is misleading us all.

Chairman **Glenn**. History is on your side, I think, and I am on your side, more than I am the other side on that whole argument of macroeconomics. As another example to follow this on—and if you will allow me just 10 seconds here, Carl, I know the right light is on—but Reagan's fiscal year 1990 budget is based on an economic forecast developed by OMB over 2 months ago. Since that time the economy has not behaved as they predicted, even in that short length of time.

For example, OMB assumes that 90-day Treasury bill rates in this fiscal year will average 6.7. Today those rates are above 8 percent right now.

Mr. **Darman**. Yes, sir.

Chairman **Glenn**. That is just an example.

Mr. **Darman**. That is a good point, but those are actually broken out quarter by quarter, and the rate is coming down through the whole period, and so the 6 point something percent number is an average for the whole, and so we are not quite as far off. But you are totally correct: we are off.

Chairman GLENN. One additional question here. Given your view of this and the long-term macroeconomic lack of validity—and I share your view on that—how do you plan to deal with this situation as the new Director?

Mr. DARMAN. Well, first of all, we will be bound to present the kind of forecast that I think we should not present. I do not mean whether it is rosy, or not. I mean, that it will be a single point forecast we are bound to by the budget law and the procedures that are imposed upon us.

Chairman GLENN. But you are going to say that you do not have any faith in the figures that are out there?

Mr. DARMAN. No; no; no. First of all, our Chairman of the Council of Economic Advisors will not speak about macroeconomics as I have since he is a distinguished and respected macroeconomist. And he will, I feel confident, be fully prepared to defend the forecast and as respectably as any economist could.

But I have said, and I would hope we could begin in the future—we cannot do it right now—but I would hope in a subsequent year, when we have more lead time, that instead of presenting a single forecast we present a high, medium, low.

And we show the consequences associated with high, medium, low. What you might consider more optimistic, sort of conventional, and a little less optimistic. And if we do that, we might say, well, our bet is the more optimistic, and you might say your bet is the less optimistic. At least we know what we are talking about as the range, and people can get a sense of how they want to adjust in light of a personal probability distribution, so to speak, and we would have different probability assessments, but at least we would have more information to go on, and a little less argument about is this right or is it wrong.

If I am right, here's the number; if someone else is right, that's the number. And see how much difference we think it really makes.

Chairman GLENN. Carl.

Senator LEVIN. Thank you, Mr. Chairman.

In an earlier response you said that the Medicare tax increase was within the no tax increase pledge of Vice President Bush because it had been previously proposed by the Administration that Vice President Bush is a part of.

Mr. DARMAN. No new tax increase. He said no new tax increase.

Senator LEVIN. All right.

Mr. DARMAN. And I am interpreting now to mean none that he has ever proposed before, or been associated with before.

Senator LEVIN. Well, he said: "I will not raise taxes." He did not say new taxes. Are you saying there is a difference between a new tax increase and a tax increase? You are not—or are you?

Mr. DARMAN. Senator Levin——

Senator LEVIN. I hate to go back all the way to where we were at 10 o'clock this morning, but——

Mr. DARMAN. I can assure you so do I, but I believe what he said was, "Read my lips. No new taxes."

Senator LEVIN. He said, "I will not raise taxes."

Mr. DARMAN. Well, he may have that but I believe that the—I do not know what—I feel certain that the line that is etched in the minds of most Americans viewing television in the course of the campaign was the modification of the Clint Eastwood line: "Read my lips. No new taxes."

Senator **Levin**. Well, the depth of the etching may vary, but I am just quoting the Vice President. A number of times he says, "I will not raise taxes."

All I am asking you is, is that something different from saying no new taxes? You mean if they had been proposed before, then he might support them?

Mr. **Darman**. I think that——

Senator **Levin**. Or if you raise an old tax?

Mr. **Darman** [continuing]. If he has proposed them before, or been associated with proposing them before, that they would be what we might consider grandfathered. [Laughter.]

Senator **Levin**. So if he has proposed them, or the Administration that he is a part of has proposed them before, even though they have never been adopted in law——

Mr. **Darman**. But they have been proposed year after year after year after year.

Senator **Levin**. How about if they were just proposed once by the Administration?

Mr. **Darman**. Could we get back to what I think is the basic test here?

Senator **Levin**. No. Not quite yet.

Mr. **Darman**. Okay.

Senator **Levin**. If they have been proposed once by the Administration, not enacted into law, would the enactment now constitute a new tax?

Mr. **Darman**. If the Vice President has been associated with the prior proposal, I would say it would not be considered a new tax in the way in which I would interpret it. I emphasized before that I was not speaking for him on this point.

I have not explored with him, in quite the detail that you have explored with me, his exact meaning of the phrase, but——

Senator **Levin**. But you do believe that when he said during the first debate, "I will not raise taxes," that he may have been meaning something different from no new taxes?

Mr. **Darman**. I assume that he meant no new taxes because that was the political slogan of the time, and it was, whenever you used any phrase remotely like it, what was conjured I think in the minds of most Americans.

Senator **Levin**. And in your mind——

Mr. **Darman**. "Read my lips. No new taxes."

Senator **Levin**. In your mind, is that difference from no tax increase? In your mind.

Mr. **Darman**. Well, subject to all of the qualifications we have gone through so far on this point, the two should be construed as identical.

Senator **Levin**. There was a contingency tax increase, for instance, back in 1984, that was proposed by the Administration.

Mr. **Darman**. That had associated with it an oil import fee and the Vice President has specifically said that he's opposed to an oil import fee.

Senator **Levin**. Other than that aspect of that contingency tax increase, do you know whether——

Mr. **Darman**. Well, the other aspect, as I recall, was an income surtax. He has also said he is opposed to that.

Senator **Levin**. So that as far as you know all aspects are——

Mr. **Darman**. He would be opposed to both halves of that contingency tax, consistent with both interpretations, the no new taxes and the no tax increase.

Senator **Levin**. You were asked this morning—a totally different subject, you will be happy to hear—you were asked this morning by Senator Pryor about the veto of the whistleblower bill, and it is a bill which I sponsored and he is so supportive of, and others here have been very, very supportive of. It is a bipartisan bill. It was, by surprise, vetoed by the President after we had been assured by the Acting OMB Director that all agencies of the Government had signed off on a compromise.

And so we were very displeased with it, that action of the President, and when I say we, I mean Republicans and Democrats in the Congress.

You said to Senator Pryor that we can rely on your representation on this bill and other bills, I presume in the future, as accurately representing the President's position, and we all welcome that.

It is obviously important, it is critical to the way we function around here, that we rely on representations that the President is on board, or agencies are on board, and we not be caught by surprise on that.

What I want to stress here, though, is the importance of your office, your future office, continuing to be involved in the passage of this bill, or the negotiations relative to the passage of this bill, and not, as has been rumored, just leaving this to the Justice Department.

Can you tell us that your office, the OMB, is going to continue to be involved in the legislative process, negotiations on the whistleblower bill? Can you give us that assurance today?

Mr. **Darman**. I can assure you that I would try to be so involved, and I feel I should be so involved. Obviously, if the President directs that the Attorney General is to have the lead and exclusive responsibility for this, I cannot fulfill that commitment, but I certainly would try to. I feel we owe it to you.

I have reviewed the history, as you requested. I feel a regrettable mistake was made in the communication process. I would hope it would not happen again. I would hope we could work something out, and, in any case, we would always be in a position where you could count on our word.

By the way, I think you would agree, and I would, as far as I can tell in reconstructing the record, I do believe that Joe Wright acted in good faith throughout the process.

Senator **Levin**. I have absolutely no doubt about that. the problem was that he represented that the Justice Department was on board, based on a conversation with someone in the Justice Department, and the Justice Department, later on, under a new Attorney General, said no, they were not. That is where the problem came.

But without rehashing that, I just think it is critical that you fight to stay in that process.

I know that we are going to be able to count on your representations when you make them.

There is an OMB Circular numbered A131 which requires all Federal agencies to establish and improve their use of value engineering programs. The circular was issued after oversight hearings that a Subcommittee of this full Committee held.

We have had numerous complaints that the circular is not being implemented by many agencies. I am not asking you if you are familiar with the circular at this time. I would be frankly surprised if you are.

But in any event, I would like to just simply mention it to you, so that after you are confirmed you can give us a written response as to what you are doing to implement that Circular 131 on value engineering.

Mr. **Darman**. I would be happy to do so, and you are correct. I know nothing about it.

Senator **Levin**. With the increasing flow of refugees that are coming out of the Soviet Union, there have been allegations and reports that OMB has asked the State Department to reduce their support for resettlement of those Soviet refugees, and we have long lines at this point, a backlog in bringing these people to the United States.

Do you know if OMB has made that suggestion to the State Department and what is your attitude about funding the refugee accounts?

Mr. **Darman**. I cannot give you a responsible answer on that, and I am not informed enough. I am aware, from past involvement years ago of the conflict on this, and it would be likely that OMB would be at odds at State, but I did not know that they were specifically at the moment.

I would be more than happy to look into it.

Senator **Levin**. Do you go in there with a feeling that we should cut the funding of these refugee accounts, when we are just going to create worse and worse backlogs of people coming to the United States?

Mr. **Darman**. No, I cannot believe that anybody really would, as a humanitarian matter, feel that way.

The question is what do you do about the resource constraints, and obviously, we never have quite enough to address that problem.

Senator **Levin**. Are you going in with any particular feeling on that subject?

Mr. **Darman**. I have never been cast as a person with sort of warm and kindly feelings, so it would be incredible to suggest that I had them here, but I am somewhat sympathetic, if you can imagine that.

Senator **Levin**. I can. I can, indeed. Winding up for me—and I will be done now, Mr. Chairman—you have indicated in response to the Chairman's questions, and others, that projections differ from people to people, and person to person they do. Critical economic projections differ.

The critical test, the acid, fundamental test, is whether the person who is looking you in the eye with a projection believes it. You could have two people with totally different projections sitting right next to each other, both of whom honestly believe in those projections, and what is critical is that both those people, although they disagree with each other, honestly believe what they are saying, and that they have not made up projections to make something balance.

And that is what we are looking forward to, you, as Director of OMB. You have got the intelligence, you have got the capability, the potential to be an excellent Director of the OMB. Just play it straight with Congress and the public, and you will be an excellent Director of OMB.

I look forward to your early confirmation, and congratulate you, wish you all the best, and I am done with my questions, Mr. Chairman.

Mr. DARMAN. Thank you very much, Senator Levin.

Senator ROTH. I have no further questions.

Chairman GLENN. Here is what the Chairman would like to propose, and I think this would be the most expeditious way to get you approved and on the job. If we try to end this right now, today, it seems to me I am almost duty-bound to ask for written questions, and so on, and you are going to have to respond, and so on.

I think the most expeditious way to handle this is to go ahead and have our hearing on Monday morning. I have several more questions that I have not gotten to yet. I am sure some of the other members who were unable to be here for much of the hearing today may also have additional questions.

It would be my intent to wind the whole thing up Monday morning, and to call for a vote at the end of that, with the understanding there will be no written questions, unless the Committee votes me down on that, but I doubt if they will.

So this would be my intent: to start up again at 9:30 on Monday morning, to finish Monday morning, and have a vote of the Committee at the end of that. This excludes written questions, which is a little unusual for this Committee, but I think that would be expeditious.

The Senate will not be in to vote on this before the 25th, which is Wednesday. So that puts us in good shape to report this to the Senate, and have you approved on the first day.

I hope that the Senate takes action, and not have the written question business.

Would you have any objection to that?

Senator ROTH. Well, I wonder, Mr. Chairman, whether you will have a quorum here Monday.

Chairman GLENN. Then the first time we get a quorum, we will have the quorum off the floor, as we do occasionally, or whatever we can do to get this voted out. If we do not have a quorum, we will vote the first time we get one.

Senator ROTH. It was my hope that we somehow might be able to take action this afternoon.

Chairman GLENN. I had hoped, also, but we do not have a quorum now and we are not going to get one at 4 o'clock this afternoon, that is for sure. So it will go over until Monday anyway. We will not have a meeting tomorrow, not on Inauguration Day.

Senator **ROTH**. We will have a quorum up on the Capitol steps.

Chairman **GLENN**. Well, if the President-elect thinks it is important enough, that he wants to call a halt to the inauguration and have a vote of the Governmental Affairs Committee. I am joking, of course, but I think that would be the most expeditious way to do it. This way, we will not have the written questions, which gets us over a hump that is a real time delay.

Mr. **DARMAN**. Mr. Chairman, obviously this is your business, not mine, and I would be delighted not to have to address the written questions.

Could I just enter a small plea here. As I understand it, if I miss the 25th in the full Senate, that I may not then be confirmed for some substantial period thereafter.

Chairman **GLENN**. Why is that?

Mr. **DARMAN**. Because there is not going to be an opportunity for a vote again—I was led to understand—until the 31st, the soonest. I was told this by leadership. I do not know if that is correct.

Chairman **GLENN**. Well, nobody has told me that.

Mr. **DARMAN**. Well, I hope it is not. In any case, if you could possibly—and I know you have been taking my interests into account and I appreciate it very much—but there is such an enormous difference here. I feel I ought not to be physically in OMB if I am not confirmed, doing things like directing people to do this, do that, edit this, redo those numbers, redo those numbers, give orders. I am not confirmed. I do not think it is proper.

And as a practical matter, if I do not get to OMB fairly soon, I am certainly going to have my head handed to me by the new President, and some members of Congress, for failing to be able to deliver in early February what I am afraid we sort of have promised to deliver.

Chairman **GLENN**. Well, I have additional questions anyway. I think if we can do away with the written questions, which meeting Monday would allow us to do, then that is the most expeditious way. Hopefully we will get you approved and voted out on Monday. It is available then for the Senate to vote on the first day that the Senate is in operation, which is Wednesday. I think we could do the hearing record on that, we can expedite that, cannot we? The staff says there is no problem with getting the hearing record over to the Senate, which I thought might be a hangup. We can ask for expedited handling on the floor, instead of the 1 or 2 days lying on the table which is customary, and I am happy to propose that.

I want you to get approved as fast as possible. I want you over there, Dick, getting a move on this job. I have several more questions, and I think we are at the end of our session here today.

Senator **LEVIN**. Mr. Chairman, I think all of us want to get Mr. Darman duck hunting as quickly as possible.

Could the staffs of all of our colleagues notify them of your personal request that they be available at a particular time, perhaps off the floor. So that they really understand the seriousness of trying to get this confirmed on the first day.

I think we all want to do that, and the only question is whether we can pull our colleagues together.

Chairman **Glenn**. What I would like to do is have the staff notify every office. The people that represent the Senators here, make sure you take it back to your offices: that it would be my intent at the end of the hearing on Monday—unless the Committee votes otherwise—to have the vote as to what our recommendation will be to the floor on Mr. Darman's confirmation.

Senator **Levin**. And that would be Monday morning, you expect?

Chairman **Glenn**. That would be at the end of the hearing on Monday morning. Yes.

Senator **Levin**. Do you expect that that would be still in the morning?

Chairman **Glenn**. If some people are still coming back into town on Monday, we could have the vote, say, Monday afternoon at a certain time, 3 o'clock, or whatever you want to do, or, 4 o'clock.

Senator **Roth**. Well, Mr. Chairman, I think a number of us have some commitments. If we could do it possibly by a specific time in the morning, that would be——

Senator **Levin**. Would it be helpful to see when most of us would be here, either late Monday or——

Chairman **Glenn**. Let's handle that with staff here. We can determine when the vote might be by canvassing the offices and findings out when people are going to be here.

We will do that. I hate to put you over another day, but I think that is going to be the most expeditious way to really get this handled.

So we will convene again on Monday morning at 9:30. Can you be here on Monday morning at 9:30?

Mr. **Darman**. Yes, sir. I will be here.

Chairman **Glenn**. All right. Fine. Thank you. So be it.

Mr. **Darman**. Thank you very much, Mr. Chairman.

Chairman **Glenn**. 9:30 Monday morning, and the Committee will stand in recess until 9:30 Monday morning.

[Whereupon, at 4:07 p.m., the Committee was recessed, subject to the call of the Chair.]

NOMINATION OF RICHARD G. DARMAN

MONDAY, JANUARY 23, 1989

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 9:33 a.m., in room SD-342, Dirksen Senate Office Building, Hon. John Glenn, Chairman of the Committee, presiding.

Present: Senators Glenn, Kohl, Lieberman, Stevens, Rudman, Heinz, and Wilson.

Also present: Senator Rockefeller.

OPENING STATEMENT OF CHAIRMAN GLENN

Chairman GLENN. The hearings will be in order.

We welcome everyone to the second day of hearings on the confirmation of Mr. Richard Darman to be the Director of the Office of Management and Budget. As I said at our first hearing last week, I firmly believe that the confirmation hearing we are having here is for the second most powerful position in Government—second only to the power of the presidency itself—because the Director of the Office of Management and Budget determines the budget requests for each Federal agency, within the overall limits and targets imposed by Gramm-Rudman-Hollings. That is no small assignment.

We have seen in the past how some of the programs of different departments can be thwarted or enhanced by the Office of Management and Budget, and that is the reason we give this position full attention.

Some years ago, this Committee regretted that it did not follow up on all the information it had pertaining to an OMB Director-designate. We revised the procedures accordingly, well before I became Chairman, to make the confirmation hearings on this position and others as complete as possible so we do not get caught in a bind like that again.

Mr. Darman has been extremely cooperative with the Committee in furnishing us with information. The information he has submitted has been exhaustive, and we have appreciated his cooperation in this regard.

So we will continue with the questioning this morning. I plan to reverse the usual order and go last instead of first. I indicated to Senator Kohl that I would start off with him this morning. We will alternate back and forth, and my questioning will come at the end as other Senators come in, also.

So, Senator Kohl, we will call on you for the first questions this morning.

Just one comment first.

Mr. Darman, I would just remind you that you are still under oath. This is a continuation of the last hearing. We will not have another swearing-in this morning. The first one, we trust, is still binding.

Senator **Kohl**. I wanted to ask you about the apparent shortfall in the 1986 revenue-neutral Tax Reform Act. According to the budget that was submitted, there is going to be a $44 billion shortfall over the 1989-90 period.

If, in fact, that is true, do you feel that we should go back and, in fact, make that Tax Reform Act revenue-neutral?

TESTIMONY OF RICHARD G. DARMAN, NOMINEE TO BE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. **Darman**. I do not think we should go back and try to make it revenue-neutral, Senator Kohl. I am not in a position to criticize the basis on which that estimate was made, but I would want to look at it quite carefully.

When we were involved with tax reform, both we in the Executive Branch and the independent staff of the Joint Committee on Taxation estimates that tax reform would be revenue-neutral, and revenue-neutral over time.

There was a spike-up initially of revenue and then a few years down and then back up to neutrality, and I was surprised by that estimate. I gather that CBO does not agree with that estimate from what I have read in the newspapers, the estimate you refer to.

And based on only preliminary conversation, I gather there may be several people within the administration who do not understand exactly where that estimate came from and may not have quite as much confidence in it as one might think, given that it is printed. So until I know a little bit more about what underlies that estimate, I am not in a position to comment on what one should do about it.

But I would be very hesitant about reopening tax reform for that or any other reason.

Senator **Kohl**. As our hearings begin to come to a close, I would like to have some indication from you about where we are going to get the $40 billion that we are going to probably need in cuts, in spending cuts. If you take just the broad categories, interest on our debt, defense spending, entitlement, and non-defense discretionary—if you just take those four categories, where do you see us getting that $40 billion if there is a presumption of no revenue increases?

Mr. **Darman**. I cannot give you a definitive answer on that at this point because that is exactly what had to be reviewed by the incoming President.

Obviously, we are looking at all parts of the budget with the exception of Social Security. And, clearly, it is possible to do this. President Reagan has done it in one way. And I am quite confident that President Bush will not do it in exactly the same way, but it is obviously quite possible, at least to write on paper a solution that involves strictly cuts on the spending side. Some of them will have to be in entitlements, non-Social Security entitlements. It is inescapable. The burden cannot be borne entirely by discretionary programs. But exactly which ones is a matter that is under review at the moment, and I can only promise you that we will have an answer, I would hope, by February 9th when the President, President Bush, would hope to be able to address a joint session of the Congress. That, if we make that deadline, would, I believe, be sooner than any incoming administration has done this before.

So I apologize for not having the answers today, but I feel sure you will have them quite soon.

Senator KOHL. Well, it is hard to imagine that we are just 2 or 3 weeks away from that submission, and in your own mind, subject to other people's review and approval, you do not have some fairly good idea about where you think that $40 billion will come from.

Mr. DARMAN. I have what amounts to an extremely long laundry list of possibilities, enough so that I am thoroughly persuaded that it is doable. But the reason that I would hesitate to answer is that I think it is somewhat unfair to the President, because more weight would be given to any answer I would give than it should have. It is really his decision to make, and it is my responsibility to present him with a range of options. And if I were to state my own preferences at this point, that would suddenly, I am afraid to say, become a headline that would, in effect, be attributed to President Bush. And it should not be because he has not made any decisions yet. That is the reason I would be hesitant.

There is a long laundry list, and it is inherent in this that almost everything on the laundry list is unattractive to at least some constituency. So if I volunteer my preferences and get that constituency very disturbed at President Bush, only to learn that he never intended to adopt that particular proposal whatsoever—but he has earned the wrath of that group—it does not seem to me it is fair to him on my part.

Senator KOHL. I think that is true. On the other hand, it is obviously the hope of this Committee to get some clear focus on where it is you intend to take us in this. That is why I just put the categories. I am not asking you to choose from 50 or 60 or 100 options, which might be too specific. When you just look at the four major categories, I thought that you would see that $40 billion coming from in a rough way.

Mr. DARMAN. Well, I have said one thing on this at an abstract level already that is enough to get quite a few constituencies disturbed. I said that I thought it ought to be that the savings ought to include attention to entitlement programs and not be focused exclusively on discretionary programs.

I believe I said in my prior hearing that I personally did not think that defense could grow at as rapid a rate as President Reagan has proposed. There I was speaking for myself. President Bush has not yet made a decision on that.

But, obviously, in order to achieve the target without raising revenues and without touching Social Security, virtually everything else has to be on the table.

Senator KOHL. Do you think that in a country like the United States one can look at the budget, or should be able to look at the budget and get a pretty clear indication with respect to the country's values? That the budget is one of the most important things that a country does in depicting to itself and to its citizens and to the world what its real values are?

Mr. DARMAN. I do think that is an expression of values, yes, sir. I think, however, that the society's commitment to the particular values is not necessarily directly proportional to the investment of Federal dollars in any particular value category. But, yes, it is fundamentally a value statement, and, indeed, every time the Congress votes to authorize or appropriate expenditures in a particular area or in a particular way, it is essentially making a value statement.

Senator KOHL. I wonder what it is, what kind of value system we are expressing when we cut so much out of the discretionary, non-defense area as we have over the past several years, and beef up our defense as we have.

Mr. DARMAN. If I might say, I think that we have not cut quite so deeply, as is commonly advertised. But, clearly, the commitment to build up defense—which was obviously endorsed by the Congress for the first several years of the Reagan Administration—that that reflected, I think, some national sense that we had been under-investing in America's strength globally; and that it was appropriate to restore some balance there.

It is my sense that the public at the moment feels that that balance has been sufficiently restored and is not interested in seeing incremental investment go in other directions. And, indeed, the Congress, of course, has been allocating negative amounts of real growth to defense for the past 3 or 4 years.

Senator KOHL. Would you say that between now and the year 2000 that the real challenge to this country is going to be more non-military and economic—more of a challenge for us to put our own internal house in order to be to ourselves and to the world the kind of a country that we would like to become, aside from our military prowess?

Mr. DARMAN. It would be nice if reality allowed that to be so. I personally cannot predict what is going to happen, at least with any competence, between now and the year 2000.

I feel sure that when people were looking ahead at potential defense expenditures before World War II or the Korean War or the Vietnam War, they did not imagine that they would have to allocate the resources for such a buildup, and yet in the end they did. I and you and all of us, I am sure, would hope that there not be the kind of tension in the world, and even war, that would require a significant buildup in defense. But, obviously, that could happen, and if there were foreign policy demands for defense buildup, we would have to allocate in that direction.

If we could assume that we might have a relatively peaceful world, not have to have some extraordinary buildup, then I think that attending to our economic interests at home, and, indeed, the quality of life at home, is an extremely important element not only in the making of a better America for Americans, but also in the advancement of our foreign policy interests.

I think the power of America as an example in the world is still great, and from time to time, we forget that. President Reagan liked to use the early American phrase "the shining city on the hill." It is not just early American. I guess it is originally from the New Testament.

The shining city on a hill is not just for Americans. It is for all the world. If we can make this society more attractive, healthier, I think it does advance our interests in encouraging other countries to copy our economic and political way of life, and so it can advance foreign policy interests in a different way, but sometimes just as effectively, as military force can.

All of that is rather an excessive answer that does not really answer the question. I am sorry.

Chairman GLENN. Thank you.

Senator Heinz.

OPENING STATEMENT OF SENATOR HEINZ

Senator HEINZ. Mr. Chairman, thank you very much.

I must say the most impressive thing I have ever seen in recent years has been the headline in the Washington Post above Mary McGrory's article entitled "Darman's Honeymoon Hearing." And, Dick Darman, we all want to congratulate you on having any kind of a honeymoon at all. After all the work you have done, we hope that the issues that you have to face do not create a premature divorce from this era of good feeling that you are a part of, deservedly.

One of the issues you have talked about or responded to earlier in written questions involved whether or not Congress and the administration should continue to keep the Social Security funds on budget. And as I understand it, you indicated you felt that, in principle, Social Security should be segregated, should be treated off budget, and, indeed, of course, it is by law taken off budget now. But for the purposes of Gramm-Rudman accounting, it is not. That is the only vestige of Social Security on budget today. And the result, of course, as we all know, is that the annual surpluses, which are running in the neighborhood of about $50 billion—around $56 billion for fiscal year 1989, and for the next fiscal year it will be up around $68 billion, and it will grow in increments of about $14 or $15 billion a year to about a surplus of roughly $230 billion come the year 2000—is that it obscures the real size of the deficit in the general fund of the Treasury. That is because the Treasury borrows money from Social Security and spends it. It is a lend-and-spend policy of lending by Social Security, spending by the general fund.

If we keep it up, not only through 1993 but through the year 2000, we could have the following situation: That in 1993, Congress observes Gramm-Rudman. We actually get the deficit down to zero. We keep it at zero, perhaps miracle of miracles, through the year 2000. And we are faced with the extraordinary circumstance of having a budget deficit of zero for 7 straight years and the national debt increase from around $2.5 trillion or so to $5 trillion dollars. I know you are aware of these dynamics, and I repeat them only for the benefit of those who may not have given the issue as much study.

The dynamics of debt billing are obviously serious. It would be a drain on our national savings. It would prejudice the ability of the

Government to pay the baby boom generation their retirements benefits from Social Security. Chances are it would substantially increase the amount of debt service from the general fund of the Treasury Department, currently running at 28 percent of general revenues, to some substantially larger number and percentage, and thereby mortgage not only our ability to pay retirement benefits, but undercut our ability to afford a strong national defense, funds for health, education and welfare, or to protect the environment.

Now, my biggest concern is that if we do not draw a line soon, we will become so hooked on using the annual surpluses that it will become difficult or impossible for Congress to wean itself away from what I have characterized as "fiscal fakery." And if we continue to use Social Security to play a budgetary shell game, if we continue to try and make ourselves look good by hiding the true extent of the deficit from the American people, my view is that there will be a very sad and serious day of reckoning where we will all lose.

My question to you is this: Would you agree that it would be desirable, in addition to taking the Social Security trust funds totally out of Gramm-Rudman accounting at the end of fiscal year 1993, that we should at least not make the current situation any worse than it is? By which I mean, in fiscal 1990 in the budget that you are about to be proposing to us, there will be some $60 billion of surplus funds included in that budget. If we do nothing, by fiscal year 1993 that will grow to roughly $100 billion.

How would you feel about Congress saying, all right, we are only going to count the $60 billion that we are going to count in fiscal 1990—we are not going to make your job any tougher, if you will, in fiscal year 1990—but we are not going to indulge in any additional fiscal fakery on top of that $60 billion through fiscal year 1993, the year under Gramm-Rudman in which we get the deficit down to zero? So that each year we would be, if you will, permitting the counting of $60 billion of surplus, whether that surplus was $70 or $80 or $90 billion. We would freeze, in effect, the size of the shadow that we are casting by these actions over the future. And then, presumably, at the end of 1993, we would put the Social Security trust funds entirely out of reach. We would, I assume, kind of start the Gramm-Rudman process all over again for a year or 2 to bring the true deficit down to zero.

How would you feel about that kind of a game plan? Or do you want to continue with the current policy I have so charitably characterized as fiscal fakery?

Mr. DARMAN. That is the short form of the question, Do I favor fiscal fakery? [Laughter.]

I am against fiscal fakery.

Let me just say, first, if I might—since you mentioned the Mary McGrory column—I was afraid that it might have this effect, when I saw it, that it would stimulate a counter-reaction, and that you would assure that this not be a honeymoon. I am thankful for her saying that I was only "a touch arrogant." It is the kindest thing that has ever been said about me on that point.

That said, I think the conceptual point you are making is sound, and as you know from our prior discussion of this subject, I think that the issue you are raising is an entirely legitimate and important issue to raise.

That said, I would not favor the specific proposal you have offered for addressing it, although I do think it ought to be addressed. The reason I would not favor it is I think that the burden is already heavy enough on the Gramm-Rudman process, and that when the Gramm-Rudman targets were set, they were set by Members of the Congress with full knowledge of the interaction with Social Security and the Social Security trust fund buildup. Had they wished to exclude, say, $60 billion a year worth of trust fund buildup, presumably they should have made the targets $60 billion a year higher. But they did not.

And if what we would be doing under your proposal would be suggesting that they should reopen the issue of the targets at this point, I would say I think that this is not the point at which to do that for simply practical political reasons, and some economic. I think the financial markets, to some degree, might misunderstand if suddenly we were raising the targets but not really raising the targets.

Senator HEINZ. On that point, let me just clarify that the proposal which I introduced as legislation last year, in fact, maintains the same Gramm-Rudman targets. It does not raise them.

Mr. DARMAN. Yes, but——

Senator HEINZ. And it does, it will in fiscal year 1991, 1992, and 1993, make them somewhat harder to reach.

Mr. DARMAN. Right.

Senator HEINZ. But it does not raise the Gramm-Rudman targets. Indeed, it reinforces them but says that we simply will not let the accounting game get any worse than it already is.

Mr. DARMAN. Yes, but as you have said, it does make them harder to reach. And since those who set the targets did so understanding that there would be some Social Security contribution to meeting the targets, it is changing the rules for those who set the original Gramm-Rudman targets. They, presumably, would wish to reset them. All I am saying is, though, your proposal does not involve resetting them.

The authors of Gramm-Rudman presumably would wish to reset them, and that, it seems to me, at this stage is not what we need to do. We need first to agree on a credible program that will get the deficit down and meet those targets. Once we have done that, then I agree we ought to change the accounting system. I do not think we should change the accounting system at this stage. I think it would just throw an enormous political complication into the process that we do not need. The process is already difficult enough to manage, from my perspective.

Senator HEINZ. Mr. Darman, an eloquent answer. You and I obviously have something of a disagreement on how we should account for our fiscal policies. We are not far off in one sense in that we both agree that this should be ended. We have a disagreement as to whether we should allow it to grow and get, at least for a time, worse.

But I thank you for your candor, and, as always, you do make a fine, articulate witness on behalf of the administration. I look forward to persuading you that your point of view is maybe subject to modification.

Mr. **Darman**. Could I just repeat, Senator, what I tried to suggest? I do agree with the conceptual point you are making and the seriousness of the problem that you are raising.

Might I just suggest that we also should look, perhaps, in this hypothetical new accounting world, we also should give a little more attention to total debt as a percent of GNP, not just debt held by the public. You know, we have highlighted the pattern that shows debt held by the public stabilizing and then declining. And as you are suggesting, that masks a portion of the debt that is reflected in our annual increase in the debt limit that involves the debt not yet funded, the debt to Social Security and other trust funds.

What we should be looking at, in addition to debt held by the public, is the total debt obligation as a percent of GNP, and we should be trying to keep that within reasonable bounds. So, yes, I look forward to talking with you further about this, and I do take the issue you raise seriously.

Senator **Heinz**. Thank you.

Chairman **Glenn**. Senator Lieberman.

Senator **Lieberman**. Thank you, Mr. Chairman. Good morning, Mr. Darman.

Mr. **Darman**. Good morning.

OPENING STATEMENT OF SENATOR LIEBERMAN

Senator **Lieberman**. I am one of those who, I suppose, is enjoying the honeymoon as well. I appreciated your testimony last week. I respect your intelligence and your experience, and I appreciate the feeling of trust that I think exists here. As you said so well last week, if we are going to move from where we are on the budget deficit to where we want to be, it is going to take that kind of trust and bipartisanship.

I read something over the weekend that troubled me a bit about something you said last week, and I wanted to take this opportunity to ask you directly about it. It was my impression from your testimony last week that you quite explicitly said that, until you are confirmed as the Director of OMB, you should not exercise decision-making authority. And, second—and this is more an impression than a specific recollection—you testified that you were not directly involved in the formulation of the last budget by the Reagan Administration, although you were generally informed of the economic bases of that document.

Over the weekend, I read a copy of the Federal Budget Report, which is edited by Stanley Collander, who I gather is a respected budget analyst. I do not know him personally. I will read the following to you:

> Now that the budget has been released, the informal and unofficial word from Office of Management and Budget sources is that, contrary to earlier reports, Bush officials were not simply briefed daily on the decisions made by the Reagan Administration, but they helped form those decisions so that Bush could use them to his own benefit.

For the record, I want to ask you whether that was true.

Mr. **Darman**. In my case, it is not true. It may be true with respect to other Bush officials. I do believe that there was daily contact with some of the senior transition people on budget-related issues. I do not know the content of those exchanges, but I do believe there was such contact. And, of course, Secretary Brady, I am sure, counts as a Bush official, and he was, in effect, wearing two hats in that process.

For myself, I discussed budget issues only with Joe Wright, the Director, and, in his absence, John Cogan, the Deputy Director. I did so starting late in the process after almost all of the Reagan budget decisions had already been made. They informed me of those decisions. There is not a single case in which I suggested they change a decision, they change a matter of presentation, or they do anything that would have reflected my preference.

I received the information, and I was pleased to receive it. I did not then convert that information into a basis of action on my own part. It was more part of the briefing process, and as I say, it all came late in their process.

As to the exercise of decisionmaking authority, I have not exercised any such authority. And I have tried to be very careful not to. I have asked for some analyses, and they have been analyses of options. And I asked them of Joe Wright, the Director, and it was his decision as to how to proceed to try to respond to my request for analyses. I told him that I did not want at any point to be put ahead of the line; that I understood his need to concentrate staff on getting the Reagan budget done was to come first; and that if he could work in some of the requests that I had, I would be appreciative. But I took pains to suggest that this should be nothing that put my requests at the head of the line, and that I did not want them identified as my requests because I did not want people in the agency thinking that they should attempt to give any special preference to it.

So I think I have bent over backwards to be as reasonable as one can be in this situation, and proper.

Senator LIEBERMAN. So far as your own actions were concerned, you were not involved in the construction of the Reagan Administration budget in a way that would be a preface or a prelude to the submissions of the Bush budget?

Mr. DARMAN. No, definitely not. As I say, I was announced after almost all the basic Reagan budget decisions had been made. All that was left after I was announced was a relatively narrow set of appeals. The basic outlines of the budget had already been established.

Senator LIEBERMAN. And as far as you know, the other people from the transition team were not involved in the sense of attempting to mold the final Reagan budget, as the first act in a drama whose next act presumably will be February 9, when the President comes before Congress?

Mr. DARMAN. I do not know what others may or may not have done, Senator Lieberman. I did not have an office at transition either. So I was not as closely involved with those people as one might have thought.

But let me just step back and suggest this: One way to test a hypothesis about our possible involvement would be to examine how different the Bush presentation would be from the Reagan one. And I can assure you that if it were mine to do, I would have preferred that the Reagan budget rather different from what it is. It would have made our job somewhat easier if we could have had some more interesting, dramatic contrasts. There were not as many opportunities for that as one in my position might have hoped.

Senator **Lieberman**. You see, in fact, this budget report suggests the opposite; in terms of an optimistic economic forecast, deficit reduction, and certain extreme positions on issues such as Medicaid, the Reagan budget, in a sense, sets up the process so that the new President can now come in and look better than he might otherwise look.

Mr. **Darman**. Well, I guess all of these things are relative, but it might have been even better if they had very, very deeply cut education, very, very deeply cut the environment, and then for a token contribution, we could have looked even better.

Senator **Lieberman**. Right.

Mr. **Darman**. But they did not do that.

Senator **Lieberman**. Okay. I appreciate your response and your candor. Understand that I am not suggesting there would have been anything particularly immoral about your being involved or anybody else being involved. But I just wanted to clarify the comments that you made to us last week in terms of the relationship that exists between yourself and this Committee, and I suppose, in a larger sense, between yourself and Congress.

Mr. **Darman**. Could I just say one thing on the question of the morality involved? I held myself to a little bit different standard than I suspect some of the transition people, only for the reason that my position is subject to the advice and consent of the Senate. And I think there is, at least historically, some sense of an obligation for people whose jobs are subject to advice and consent of the Senate that they await the advice and consent of the Senate before they start exercising the authority.

That is not the case with respect to people who might be moving into White House jobs. And, obviously, this is, as many have said, a friendly takeover. So it is natural that there be cooperation.

But, in my case, I did not exercise any executive authority, mainly out of respect for the tradition that suggests it ought not to be done if you are subject to advice and consent of the Senate.

Senator **Lieberman**. I for one appreciate the distinction that you are making and admire you for having made it.

If I may turn to a different line of questions: the New York Times today has an interesting article suggesting that some people do not think the deficit is a major problem facing the American Government at this time. You are somewhat obliquely tied in. I do not know if you have seen the article.

I will just summarize this part of the article, which suggests not that the deficit is unimportant, but that it is symptomatic of a larger problem—the lack of competitiveness, productivity, and, particularly, an inability of both Government and private individuals to save.

I want to ask you first to comment a bit on that. In addition, I would like you to go back to something intriguing that you said last week, which was that you were not sure that American saving patterns were subject to being affected or influenced by governmental action. On this second question, did I hear your testimony correctly? If not, what are the ways in which the Government can act to encourage a greater savings rate?

Mr. **Darman**. Should I start with the second or with the New York Times?

Senator **Lieberman**. It is your choice.

Mr. **Darman**. Well, let me take them in the order that you raised them, if I might.

I have not read the New York Times article, although someone mentioned to me on the way in that there was such an article and that it said something along the lines of what you have just said. So forgive me for not having the details.

I did say in my opening statement—short as it was, I will not bore you with reading all of it. But I tried to suggest that the deficit is viewed by many as central. That is, of course, the view with respect to the deficit, and understandably so, I said the deficit must be reduced.

I then used some slightly colorful language that no newsperson thought colorful: "We must end the game of wonderland politics where cuts are increases and going down means going up."

Senator **Lieberman**. This gives them a second bite at the bullet.

Mr. **Darman**. So I was certainly not trying to suggest that the deficit was unimportant. I think it is very important. I think we must meet the targets. I think I have testified consistently to that point of view here.

I did go on to say, though, "But I feel obliged to note that the deficit seems to me to be a symptom or a more basic problem. Our time horizon seems to have shrunk. We are under-attending to the future. We need to lengthen our perspective." And then there is quite a bit about the need to increase productivity, savings, R&D and so on.

So I do think it is important that we get the deficit down, but I do not think we should think that in so doing we will be addressing all of our basic economic problems. I did not mean to diminish the significance of the deficit. I meant only to suggest that my private—in the back of my mind is we are going to be able to get this deficit down. But I do not want us to be misled, if we are sitting here a year from now and everybody is not worried about the deficit—I do not want us to be misled into thinking: Well, that is it for economic problems, now let us go look at—I do not know what.

There will still be, I feel sure, important economic problems that require attention, and they involve this issue of our time horizon. Senator Kohl asked a question about budgets as value statements. If you look at our budget as a value statement—which I think it is appropriate to do—an argument could be made that it, like the pattern of spending generally and investment generally, that it over-attends to the present and under-attends to the future.

I certainly would like to see us analyze that issue over time with respect to Federal expenditures. So I am not trying to diminish the significance of the deficit. I would be trying to raise attention to the time horizon that we are using in looking at both public and private expenditures.

Now, on the question of the savings rate, again, I do not mean to suggest that public policy cannot influence the savings rate. But I do think, again, that we ought not to be quite so confident about exactly what measures will have what effects on the savings rate. A good portion of this, I think, is cultural and not directly influenced by public policy.

Take the Japanese, for example. The Japanese have had, as everyone knows, a very high savings rate. And many people suggested that if you would tinker with the tax system, which does encourage or has encouraged savings to an extraordinary degree, that you would get a dramatic shift to a lower savings rate in Japan, which some people thought desirable.

There are some other people who argue—and I am sympathetic to this argument—that the most effective instrument in moving the Japanese savings rate down is the television set, not public policy; that a young generation of Japanese, rising up, seeing on television the lifestyles and consumption patterns of otherwise similarly situated people in the United States, that that influence may already have done more and may in the future do more to increase the propensity to consume among the rising generation of Japanese than changes in public policy.

That is an example of something I might consider a more general cultural variable, the role of television in the society and the role of advertising and the role of widely dispersed, conspicuous consumption.

Those things influence people every bit as much as, and perhaps more than, the tax deduction for an IRA, in my opinion. That is all I meant to suggest. And we have got to, if we really are serious about savings—let me back up one step further.

The Reagan Administration came in talking about increasing savings rates, and this is not peculiar to the Reagan Administration. It is almost conventional wisdom among economists that we ought to be increasing our savings rate, public and private in the United States. Now, there was a dispute, but there were a lot of economists who thought that the tax programs of the early Reagan years would dramatically increase savings. They were some of the more thoroughly respectable economists.

That does not seem to have happened. So now some of those economists are saying, well, we do not measure savings correctly. And that is a legitimate point to raise. But I think we ought also to examine what is the relative importance of public policy at all in this area vis-a-vis other influences on our attitudes, behavior patterns and so on.

Moral leadership by public leaders, as I said last time, preposterous as it may seem, may also be quite important.

Senator LIEBERMAN. I appreciate your answer. My time is up. Thank you.

Chairman GLENN. Thank you very much.

Senator Stevens.

Senator STEVENS. Mr. Chairman, I had, as I said the other day, a visit at length with my good friend, and I have no questions to go into in depth.

I do not know whether the subject of the pay raise has come up since you have been here before us, though. So let me inquire. Has it?

Mr. DARMAN. Yes, sir. I believe it was thoroughly covered. [Laughter.]

Chairman GLENN. That does not necessarily reflect the observations of the Chairman. I would say.

Mr. DARMAN. No, it was mentioned, but we did not get into it. It was just mentioned, as that was about all, as I recollect. It is a fertile field.

That last statement was not under oath. [Laughter.]

Senator STEVENS. Well, having been involved now in managing or assisting to manage various changes in executive, judicial and congressional pay for a series of years—20, to be exact—it appears to me that this current recommendation of President Reagan is being rather heavily attacked without any real understanding of what the commission means.

Do you have a group working on this pay raise and its consequences to the Executive Branch?

Mr. DARMAN. No, I do not have a group working on it now. I would like to look into some of the issues of implementation as soon as I get through this process. But I am not in a position to have a group looking at that at the moment.

Senator STEVENS. Well, I appreciate that, and I am one that believes that we should not press you for any kind of decision until you have been confirmed, as you have said yourself, and until you have the advantage of a full review of each of these subjects.

But since I gave you rather liberally my advice in my office when we visited on other subjects, which we need not get into, let me give you my advice on this. I conducted a study some 6 years ago on the problems of the mid-career decisions in the Executive Branch. We had at that time a series of desks at NIH and at the Department of Defense that were vacant. We could not fill them. Those who had been destined to fill them had made the decision to leave the Government, and we faced severe costs involved in that decision, having trained people for a job that they decided not to take. And the exit interviews, I think, showed conclusively that the lack of increased pay for the future was a severe constraint and was one of the basic reasons for the mid-career decisions to leave the Government.

I am of the opinion that too many of my colleagues look at this pay increase with myopia and wonder how it is going to affect them at home. I look at it in terms of what it is going to do to affect the Government 8, 10, 12 years from now in terms of these mid-career decisions, and the quality of people that this new administration is going to be able to attract for the purpose of staying 4 to 8 years at just above that mid-career decision.

I also look at it from the point of view of what it is going to mean to the young State legislator or the young executive, the young community leader. Will they decide to try to make a career decision now that they would like to come to the Congress? Or will they look at us and say we are unwilling to pay ourselves a salary that they can make in the rural part of our country?

I think we are surrounded by school districts right here in Washington where the school superintendents are paid in excess of members of Congress, and some of them in excess of what Cabinet officers receive as salaries.

Now, I think you must be in the position, whether you like it or not—and sometimes I do not like it—of having the role to try to make people understand why there must be periodic changes in this compensation if we are going to maintain the integrity of the executive, judicial and congressional branches of this Government. I am hopeful you will have a group working on this, and that you will be prepared to come up and support this pay raise when the subject comes before this Committee.

Now, that will not be too long after your confirmation, which I hope will take place this week. It may be one of the first pieces of business, as they say, on your plate. I hope that you use a spatula and turn it over and over and do not try to cut it up.

Mr. Darman. Senator, could I just offer one general comment in response? Thank you for the advice and suggestion.

This is just an expression of my personal view on this subject, having served for a long time in Government in the Executive Branch. I am not commenting with respect to the Congress.

With respect to the Executive Branch, I have always thought that at the higher levels we should not apply an exact market comparability test, because at the higher levels there is a degree of respect that is afforded the individuals which is some element of contribution beyond the cash contribution. And there is an opportunity for service on the public side which should be rewarding to individuals, and, indeed, one should prefer to attract people who value that service and who are not coming to serve for the money.

On the other hand, the way the pay system is structured, as you are suggesting, the cap at the top has very severe adverse effects on the ability to get first-class people in the middle. Now, there, too, I think a lot of people who have come into Government have come in valuing highly the possibility of public service. And so they are willing to take some element of sacrifice relative to what they might have earned in the private side. But, by the same token, they have families to raise, kids to put through college and so on. And when the private marketplace gets way out of line, way, way out of line with the public marketplace, you are bound to have an adverse effect on the quality of management and performance in Government. So they have to be brought more reasonably into line.

Now, just to take an absurd case in point: When I look at OMB at the moment, the next highest level of officials, apart from the deputy, the associate directors, program associate directors, under the current system those people, the next tier down who have—as I think Senator Glenn and others would agree—a very considerable responsibility in this society, those people are paid less than some entering first-year graduates of graduate school in the firm I just left.

Now, admittedly, the firm I left is on Wall Street where they are way off on the other end, on the high side. But it is absurd that a person just getting out of graduate school should be able to come into a firm and earn the same amount as someone you would expect would be 10, 15, 20, 25 years older exercising enormous responsibility. But that is the reality of the disparity between the public and private market at the moment, and it has got to be corrected, in my opinion.

Senator **Stevens**. Well, I am pleased to hear you say that. It not only has to be corrected, but there has to be some way to differentiate between those who are making a career decision and those who are coming to the Government for experience and their career decision has already been made to return to the private sector or to another part of the public sector other than the Federal Government.

I think that this whole concept needs further review, and it is obvious that the current system, the manner in which we adjust salaries, is unacceptable to the public. I originally introduced an amendment to change the Constitution to find a new way to establish congressional salaries, because I think that the great problem is that the Congress is unable to divorce itself from the impact of pay increases on individual members themselves.

But I do believe that this is one of the most critical things this administration will face, the question of what will be the caliber of the mid-career executive in the Federal Government at the turn of the century. That is what you are deciding as you set the pay scales now. Because if these people that come in now can only see the mid-career people leaving at the time they come in, they will know that is not a career decision. They are not going to spend their lives here if they are going to face constraints in pay adjustments for the future.

Let me just tell you that since 1970, the consumer price index is up 209 percent, Social Security is up 232 percent, the private sector is up between 190 and 195 percent, Government employees, per se, are up 132 percent, and members of Congress have adjusted their salary up 109 percent.

Now, people that refused to adjust their own salaries, taking into consideration those that come after them, are not going to be fair to the Government employees either. We have demonstrated that—Social Security up 232, Government employees up 132, the CPI up 209, and members of Congress up 109.

I think there is a direct correlation, and I think you have a hell of a job to do.

Thank you, Mr. Chairman.

Chairman **Glenn**. Thank you, Senator Stevens.

I had passed my turn early on. I will take my turn now since there is no one else on our side over here to respond.

Let me just back up what Senator Stevens was saying. A figure I came across that was quite shocking was that of the top people in Government you are talking about, to whom Government service is not all dollars—the assistant secretaries, deputy assistant secretaries and so on on down to a certain level—have only an 18-month tenure in Government, on average, over the past 8 years. That is not very high. You hardly get any policy in shape or carry out any particular plan having that kind of tenure in office. So Government for those people, merely as a way station to get that into their file or on their resume, is hardly what we are all about here. We are looking for a more permanent arrangement than that, certainly. So I am in support of what Senator Stevens says.

Returning to the issue of competitiveness which we discussed a little bit the other day. In 1986, you gave what is now known as the "corpocracy speech." In it, you blamed the United States competitiveness problem not only on the budget deficit but also on corporate America's tendency to be "bloated, risk-adverse, inefficient, and unimaginative."

You also said, "As a general rule, we pride ourselves on our pioneering traditions, but outside of the publicly-funded defense area, we under-invest in research and development."

In a subsequent article, you wrote that, "We have much to learn from the Japanese about promoting innovation and managing global marketing strategies."

Now, I am also very, very concerned about civilian R&D. I think in the early days of this Administration, when the President basically wanted to turn everything back to private industry and said that "If it is worth doing in research, private industry will do it." This policy showed an appalling lack of knowledge about how our system has worked in the past.

We have had some private companies, like Bell Labs, 3M, Monsanto, Du Pont, and a few other companies, which have dedicated funds to doing the 5-, the 8-, the 15-year research programs no matter what. And that is the way it has to be done. But by and large, most of our very basic research has come through Government laboratories.

One of the areas, too, that the Japanese and others have been particularly adept at is taking our breakthroughs, maximizing them commercially, and then selling the products back to us. This takes away the necessity for other countries to have some of the big research programs. But we are beginning to get beyond that right now.

In some of the other areas around the world, the Japanese, in particular, the Germans, the French, the British to some extent, and others are beginning to out-compete the United States of America. I have felt there are two things that made this country what it is more than anything else. It was not just our resources, it was education and basic research. We educated everybody. Education here was not just for the kids from the castle. It was for everyone. And we have not done a perfect job, but we have done better than anywhere else in the world, I believe, in that area.

Also, in research, we learned the new things first. We put more of our GNP back into basic, fundamental, Nobel laureate, seminal, breakthrough-type research. And now we have been cutting back in those areas and saying if it is worth doing, private industry will do it. Now, I just do not believe that.

You have made statements in the past about some of these things, and the quotes of your comments about industry and corporations in this country not being willing to take those risks means to me that if we are to stay abreast—not only abreast of the world, but ahead of the world, so that we have the options for the future of what we want to do, that we have to have the Government very much involved in these areas of research.

What would you plan to do as the head of OMB to see that we do have adequate amounts put into research and that they are overseen in an effective and coordinate way?

Mr. Darman. Well, first of all, Senator, you did not ask, but I should say that I am happy to stand on the statements I made in the past, controversial though they be.

I think that the need for public investment in R&D is inter-related with the point I made about the corporate culture, as your question itself suggests. It is fine to say, as we have tended to lately, that the public role is basic R&D and defense-related R&D, and that we will leave civilian-applied research to the private sector where there is an economic incentive to engage in it. It is fine to say that if the private sector incentive system is, in fact, oriented toward encouraging such applied civilian R&D.

But as my comments suggested, there seems to be something wrong with the incentive system on the private side at the moment. That has been getting somewhat better, many would argue, but I feel quite sure that there is still a problem. For some corporate leaders, there is too strong an incentive to attend to what we might consider financial play rather than long-term investment in higher-risk, breakthrough, potential breakthrough activities where the returns will accrue to what is possibly the successor of whoever is the head of a corporation, or, indeed, a successor 2 or 3 times removed.

Chairman GLENN. In other words, if you don't have a 3- to 5-year bottom line payoff, the CEO is out.

Mr. DARMAN. To the extent that the current system encourages that kind of thinking—and there are some notable and favorable exceptions. But to the extent that it encourages that kind of thinking and to the extent that it encourages people to engage in near-term financial manipulation of one sort or another as a way to improve either their returns or the balance sheet, at the expense of longer-term investment there is a problem that needs to be addressed.

Now, the problem can be addressed partly by looking at ways to change the incentive system. It may well be that greater incentive for long-term capital holding is a virtue in this respect that we have lost with tax reform. In other words, it may be the some form of capital gains incentive for holding long-term assets would be a plus. I think it would be.

I have said that I think the research and development of research and experimentation credit should be made permanent so people can plan on it. At the time in tax reform, when it was cut from 25 percent to 20 percent, I had preferred that it stay at 25 percent. Well, for the moment, we cannot afford that, but we could make it permanent and I think we should at the 20 percent.

If a day came where we were not so fiscally strapped, I would like to see us expand the value of the credit but keep what is eligible for it fairly tightly confined, as tax reform did do. That part was correct, I think, tightly confined to things that really are likely to improve innovation.

Now, in the direct expenditure of outlays for research on the governmental side, I think as long as we are persuaded that the private side is not yet adequately oriented to do the whole job, we have to attend to the public contribution to applied civilian R&D. We cannot say it is simply enough for the Federal Government to attend to basic research and development, defense R&D, and leave the rest to the private incentive system.

Now, in looking at what, though, should be the investment in applied civilian R&D, my orientation personally is toward generic investments rather than industry-specific investments, investments in technologies that are likely to be of general application rather than technologies peculiarly suited to a particular sector.

Even so, it is very hard responsibly to determine what it is promising to invest in. And I have talked with the head of the National Academy of Sciences and the head of the National Academy of Engineering. As you know, they have a report which makes some suggestions about ways in which we ought to change the internal review processes in OMB with respect to investment in science and technology. I am very sympathetic to their report. It involves a greater use of the science adviser in the OMB review process, and that seems to me to be a desirable thing to do—although I think it is also desirable to include the National Academies more.

So I have told them that if I were confirmed, I would look forward to working with them on this. I share your perspective as to its importance.

Chairman GLENN. Well, my time is almost up. I think the last time we had a science adviser over in the White House that was really looked at as having sufficient stature—that that person was generally admired by the whole scientific community and whose words were listened to very carefully by the President—was Jerry Weisner back in the Kennedy days. He really advised the President, and the President took his advice very, very seriously. I think that role of the science adviser, which I will come back to in later questioning here, is one that I wanted to pursue also. But I appreciate your comments on this.

I agree that the Government should be taking the high-risk research that private industry is not willing to take, and which is high risk, and we can all share together as a Nation. We have not been quite as willing to do that over the last 8 years as I think we should have been.

How we move this technology, then, into use in our own country here and how we expedite this means is another area I wanted to mention later on. I proposed legislation on this last year, and I want to ask a couple of questions about that later.

Next in line, Senator Wilson, who we welcome as a new member to the Committee. We have worked closely with him on the Armed Services Committee, on the Subcommittee that he and I both have chaired on the manpower areas of defense. We know of his interest in these areas, and we welcome him to this Committee. Pete?

Senator WILSON. Thank you very much, Mr. Chairman.

Chairman GLENN. I would say, too, that he and I had a little bet on yesterday's game between California and Ohio. You can guess who won 10 gallons of genuine Cincinnati Skyline chili. [Laughter.]

Senator WILSON. We are savoring it already.

Chairman GLENN. Had the game gone the other way, I was going to get 20 pounds of genuine San Francisco Ghirardelli high-class chocolate.

Senator STEVENS. Twenty pounds?

Chairman GLENN. Twenty pounds. Now don't you wish Cincinnati had won.

OPENING STATEMENT OF SENATOR WILSON

Senator **Wilson**. I was not even going to mention that, Mr. Chairman, but with characteristic generosity, you have.

Let me just say that I was very interested in the observations or the line of commentary that Senator Lieberman was pursuing. At some point, I would like to carry that further, but we really do not have time at this juncture.

Let me say as well that Mr. Darman has expressed very succinctly my own views with respect to the desirability of long-term capital gains, and making permanent an expanded R&D tax credit.

Let me pursue something else. These hearings really are for the purpose of determining the candidate's, the nominee's qualifications. As far as I am concerned, those have been amply demonstrated. But even though I am perhaps almost as eager to get to his vote as is Mr. Darman, I will take advantage of his presence to ask a couple of questions which I think relate to the responsibilities that he is going to have.

Last Thursday, a good deal of time was spent on the duck test. What I think that discussion reflected, both from the witness table and from the rostrum here, was a concern about the deficit and its reduction. And it would seem that in many respects, the most challenging responsibility that we share is how we not only continue doing business as usual, but also how we finance the undertaking of new responsibilities of a particularly critical nature. And there is no shortage in that catalogue, but among the more pressing, it seems to me, are some of the environmental cleanup responsibilities that Congress has slowly and incrementally added to the catalogue of Federal responsibilities, and another one that clearly is an increasing concern, and one of increasing urgency, has to do with health care.

It would seem to me that when we are talking about new responsibilities, consistent with the President's campaign promise of no new taxes, we are necessarily constrained to cut the spending for some less important programs in favor of undertaking new responsibilities. But it may also be that, consistent with a duck test or some other kind of test, that revenues generated by certain kinds of activities that necessitate a cleanup will receive from the Congress, and I would think from the administration, very, very close scrutiny.

It is probably true that many of those will wind up being a burden on the consumer, ultimately. If you tax corporations for what they do, in most instances, unless you're talking about some strictly controlled windfall situation, you have the kind of cost that will be passed on to consumers.

It is my judgment in listening to President Bush and talking with him, and talking with others in his administration, that he seeks to avoid an increase to the tax burden of the American taxpayer as an individual, whether that be in the form of increased prices paid by him as a consumer due to taxes upon production of goods or services which he consumes, or directly as a taxpayer.

But in the situation in which you can actually isolate a windfall that would occur, and one in particular where it has been driven by Government action, it would seem to me that you have a different situation than one where you would not be adding to the burden of the consumer and where it would be altogether fair and consistent with that campaign pledge to impose a cost upon the producer to assist in the cleanup or to assist in addressing by some remedial fashion an environmentally damaging activity. Here I have in mind the production of some of those things that are producing an ozone drain.

I gather from your nodding that you feel that that is fair and consistent.

Mr. DARMAN. Yes, I do.

Senator WILSON. Let me give you one that I hope will be even easier. I spoke of health care. Last year, a bill which I introduced and for which I had gained some 30 cosponsors was not heard. It was late in the session, and actually it came to this Committee when I reintroduced it on the 25th. It was a bill that sought to provide long-term health care to a large group of Americans who do not really have it now. Those are Federal employees, which is why the committee has jurisdiction over the bill.

The idea is very simply to say to those who are enrolled in FEGLI, the Federal Employees Group Life Insurance plan, should have a new option. When most enroll in that plan, it is as relatively young breadwinners concerned about what happens to a young family that they would leave behind if they were taken. As they grow older, as they reach, let us say, age 50, and that young family begins to leave the nest or to become self-sufficient, the Federal employee as breadwinner is suddenly confronted with a new challenge; that is, caring for his own long-term health care, specifically nursing home care or home visits by a health care professional.

And what the proposal is, simply stated, is an option to that Federal employee enrolled in that group life plan to convert a portion of the plan's face value into prepaid health care premiums that would take care of up to 3 years of nursing home care or home visits by health care professionals.

The plan is actuarially sound; it is an idea that really came out of the Office of Personnel Management. It is also an idea which, in my judgment, will provide a model through the public and the private sector on a much broader basis. If it works for Federal employees, there is no reason that it cannot work for the employees of the University of California, or for those of Pacific Telysis or for those of General Motors or the University of—well, let us say a great university like Ohio State, just to pick one at random.

But what I am saying is that I think what we have is an opportunity in that instance to bring about a new benefit, but without a new cost to the Federal Government. Because in this instance, the Federal Government as the employer would continue its existing contribution, but not make a different or increased contribution. And I would hope that as that proposal not only come to the Committee but comes before your office, it would receive not only a sympathetic ear, but enthusiastic support.

I mention that not only to lobby for the bill, but also because I think that we in this 101st Congress are going to be confronted with other requests for legislative action that will seek to create entirely new programs, one with the potential to assume the dimensions of a new Social Security system.

Before we do that, I think it is imperative, I think it is our highest responsibility, to find ways that we can extend what is a needed new benefit to tens of millions of Americans who now find it beyond their reach, and do so in a way that does not burden the taxpayer with some new cost if, in fact, it can be done in another way.

There will be some to whom that kind of approach simply does not reach. And that will be a taxpayer responsibility, presumably. But before we make that decision, we ought to find out how many Americans, through their own prudence and by the exercise of such an option, could be covered, diminishing thereby the remaining burden on the taxpayer.

I would invite your comment.

Mr. **Darman**. Thank you, Senator. I have not had an opportunity to analyze your specific proposal. I would very much look forward to doing so. Certainly, the problem that you point to is an important problem and demands our serious attention.

I agree with you about the likelihood of new proposals that are quite popular appearing in the very near future, and the related point that they could turn out to be extremely expensive over the long term. And I, like you, would like to avoid the public cost.

I have to confess that while I would look with great interest at your proposal, be positively predisposed, I am generally somewhat skeptical of the possibility of there being new benefits at zero cost. But I will state unequivocally, any case that we can have new benefits at zero cost, I would be for. And I will look very seriously at your proposal.

Senator **Wilson**. Let me ask you, then, this final question. Earlier in your testimony Thursday, and then again today, you expressed some concern, quite properly, about near-term manipulation by managers in order to satisfy the appetites of shareholders for short-term gain. And I gather that is related to an earlier comment about the possibility of looking at the deductibility of certain kinds of interest, where, in fact, the interest is paid on what is nominally called debt, but where the purpose and effect seems to suggest that it is more nearly equity.

Could you enlarge a little bit on that?

Mr. **Darman**. Yes, I could, but I was not really trying to link those two. I was answering the question on the definition of ducks as related to a point I made in my written submission that said, in certain cases, deductibility of interest could be construed as a definitional change, or the treatment of deductibility could be construed as a definitional change. And I used as a case in point the question of the classification of certain kinds of debt as equity. I did not try to link that to the comments that I have made independently here—and you are correct that I have made them—about short-term financial manipulation.

I am inclined to think that that would not be adequate to deal with the problem, a change in the treatment of certain kinds of debt—at least in the way ordinarily analyzed by Treasury. That would apply to a very, very limited class of cases, I think, at least as long as it were subject to my characterization as definitional change. If it moved beyond the level of definitional change, then it is arguable it could have some effect.

The better way to get at it, in my opinion—although I do not think it is very likely that Congress is going to do this—is not to reduce the deductibility of interest, generally, but to end the double taxation of dividends. The problem is that debt financing is given a preference in the tax system relative to equity financing. And we ought, as a matter of general policy, to be trying not to create such a preference for debt.

In making these comments, I am not trying to suggest where the administration is going to come out on how to deal with LBO's and other such things that are of current interest. I believe Secretary Brady will be testifying on that tomorrow, and he has the lead responsibility for this. I have to confess I have not yet seen his testimony, but I am sure that it should be taken as authoritative, not any comments that I would make on the subject.

Senator **Wilson**. Thank you very much.

Chairman **Glenn**. Senator Rudman.

Senator **Rudman**. Thank you, Mr. Chairman.

Mr. Chairman, I would just address a question to the Chair. I am just curious what our schedule might be for today.

Chairman **Glenn**. Our schedule will be the same as the other day. If we go beyond the 12:30 point—I do not know whether we will or not, we will break until 2 and continue until we finish today. And we will call for a vote at the end of that and try to corral enough Senators here. I think it has been obvious this morning we do have enough to vote Mr. Darman out today. So at the end of the hearing, I would propose that we do that so that we can have him on the schedule for a vote on the Senate floor on Wednesday.

Senator **Rudman**. I appreciate the Chairman's answer. I was looking at the calendar this morning before coming over here and realized that there are 16 days—I am including every day—between now and the 9th. Mr. Darman has certainly got his work cut out for him. I expect he will be working every day, not just work days, in order to help the President get his budget up here and his budget changes and so forth. So I appreciate the Chairman's answer because I do not envy Mr. Darman what he must do between now and the 16th.

Mr. Darman, I guess I really don't have a lot of questions for you this morning, really more of a comment to which I might get a response.

I was following the hearing on television in my office while I had something else going on this morning, and I found your exchange with Senator Heinz most interesting. We had a bit of that earlier.

I would just comment that you are absolutely right that the targets were set on an economic theory that was argued to us by a number of experts. I guess you would call it the speeding train theory, the theory being that if you take a train going 100 miles an hour and try to stop it in 10 feet, it will probably go off the track.

Had we separated operating budget from Social Security trust fund surpluses, the advice we had is that that was just unrealistic; that that would be too much to digest for the system.

And the second thing that we took into account, which really is part of the whole issue, is that in, I believe, 1983 or 1984, we made major changes based on the Social Security Commission and put an additional tax burden on the American people.

When you add that tax burden, plus the income tax burden, plus state and local taxes, you can argue it many ways, but there are many who feel that to try to move that up very much to take into account what Senator Heinz is talking about could cause additional economic problems.

I would just like your comment on that, considering where you are just coming out of.

Mr. **Darman**. I agree with you, Senator Rudman, but the dominant consideration in my mind is the one I suggested earlier that first we have got to come to an agreement within the existing framework.

If we try to change the framework, that will open up so many issues, it seems to me, that are secondary at this point that we are going to lose valuable time in getting at the basics.

I agreed, and do agree with Senator Heinz as to the importance and validity of the point he is making. I am simply making what is a tactical judgment that we ought to move forward with the existing Gramm-Rudman targets, the existing Gramm-Rudman framework; and after we have persuaded ourselves that we have done a responsible job of enacting a program that can bring the deficits down in accordance with that framework, then I do believe—and I know you agree—there is a host of legitimate accounting issues that should be addressed with respect to the future system and the future way of setting targets and the way of accounting and, indeed, the way of allocating what counts and does not count for sequester purposes. I am just saying, however, all that should be done should be done after we have reached an agreement.

Senator **Rudman**. Well, it should not surprise anyone to know the legislation is already essentially drafted to go to an operating budget deficit reduction exclusive of all trust funds. Because not only is the Social Security trust fund argument forth, but once you get through that argument, then you get into the Highway trust fund and the Airport trust fund and numerous other funds.

I agree with Senator Heinz totally, and we have had that discussion in this Committee. The question is: When do we do that and how can we accommodate that?

The second thing, I just wanted to make a request. I wonder if we might get you to agree today that you will not use what I call the new language, as you describe what we come up with for numbers. I was sort of reminded of that by Senator Kohl's discussion with you earlier.

In this city, if you get $100 this year and you ask for $130 next year, but you only get $120, that is called a cut. I wonder if we might refer to those as increases.

The fact is that we have, in fact, increased all of these accounts over the last 4 years since G-R-H. It really begs the question. We talk about cutting all of these programs. We have cut the requests in many cases. In fact, the administration has also been guilty of it in their reference to it.

So I think we ought to talk about cuts from budget requests so the American people do not have a totally distorted view of what is going on here, which I think they do.

I wonder if you might comment on that.

Mr. DARMAN. I agree with your point about our peculiar use of language here in Washington. I think your point is completely correct. Almost any place else on earth, if in a given year a budget is 100 and the next year it is 103, it would be considered an increase. In our world of current services accounting, chances are good that if the inflation rate were greater than 3 percent, the 103 would be called a decrease.

That is certainly a peculiar way of speaking. Indeed, it builds in a bias toward imbalance in the basic fiscal structure.

Senator RUDMAN. It also, Mr. Darman, builds a terrible misconception out in the country as to what is really going on here. It has been fascinating to sit down with groups who have received newsletters from their national organizations here; and when you give them the facts of what actually happened with the budget they were interested in—with the appropriation, to be more precise, of what they were interested in, they really are amazed because they truly believe that massive cuts were made. And so I would plead for truth in syntax, for lack of a better word.

Finally, I would only repeat what I said last week. I really appreciate your candor here and the spirit in which these hearings have been conducted. I fully expect that some of the more elegant restaurants in Washington will probably have a new dish called "Darman Duck" by the end of the week. [Laughter.]

We hope that we will continue to have the same pleasurable dealings with you that we have had up to now. Thank you.

Mr. DARMAN. Thank you very much. I can report that, thanks to Senator Glenn, I have already received a remarkable number of actual ducks. [Laughter.]

Chairman GLENN. I thought our original versions here were pretty good.

Mr. DARMAN. They were the best. I have also received a little book called "It's Illegal to Quack Like a Duck."

I am sure that when the mail catches up with me, I will hear from many duck-lovers.

Chairman GLENN. We have completed our first round of questions here. Senator Rockefeller had approached me the other day with some questions that he wondered if we were covering. I told him if he would stop by today that we would try and accommodate him, as we do in the spirit of camaraderie with Senators of other committees, even though he is not a member of this Committee. Since we have just completed our first round, I think I will call on Senator Rockefeller right now before we start our second round of questioning.

Jay, welcome.

Senator ROCKEFELLER. Mr. Chairman, it is incredibly generous of you to enable me to walk into a Committee that I am not on and be able to ask questions. I wanted to do that.

I represent, Mr. Darman, the State of West Virginia which leads the Nation in plant closings, which back in 1982 and 1983, suffered a severe recession and had a stunning unemployment rate of 21 percent, and which also depends much more than most other States on Federal transfer payments and programs.

Over the years, we have not diversified our economy the way we should have, partly due to our terrain. Ninety-six percent of West Virginia is mountainous. It is hard to locate Air Force bases and large plants in our kind of State.

My concern, Mr. Darman, is in the approach that you have taken—and I have watched you on television and read your comments—there is so much rigidity built into your thinking. I worry because child nutrition money, infant mortality money, vocational education, the Small Business Administration are all so crucial to West Virginia.

You say there are to be no tax increases—and you have made that incredibly clear. I for one, however, do not understand why we cannot raise the income tax for upper level income people. I do not know why I should be paying the same income tax rate as a school teacher in West Virginia or Nebraska or anywhere else.

But in any event, if there are to be no revenue increases at all, it is fairly clear that States like West Virginia, which depend more on the Federal budget, are going to suffer more. My question to you would be, would arise out of my concern. Where do you foresee these budget cuts that are going to have to be made? Whose shoulders are they going to come from?

We in West Virginia, without trying to be melodramatic, have sacrificed. We have been through incredible difficulties for a long, long time. The President calls for sacrifice; you called for shared sacrifice. Would it not be that under the budget that appears that you are now beginning to talk about that a State like West Virginia will get hurt much more than, say. Connecticut or California—with due respect to Senator Wilson?

Mr. DARMAN. Thank you for the question, Senator Rockefeller. I have absolutely no reason to believe that West Virginia would be disadvantaged peculiarly by a Bush budget, particularly since we do not yet have a Bush budget. I would be more than happy to attempt to take a look at what the differential impacts might. And there obviously will be some. There are with every budget, state to state. But I have no prior reason to believe that it should be adverse to West Virginia.

On your point about rigidity, I might just note as an aside that I am delighted to hear that. It is the first time I have ever been accused of that. Human Events, which used to ask for my resignation almost weekly, would be extremely surprised to hear me characterized as being someone who is extremely rigid.

I have certainly not attempted to approach this confirmation hearing in a spirit of rigidity. Indeed, I have tried to emphasize what I take to be an inescapable reality that we are going to have to approach this in a spirit of bipartisan cooperation.

I have expressed a point of view that attempts to represent the President of the United States' point of view on the tax issue. I am respectful of other points of view. I look forward to a process of negotiation. I would be surprised if you would find universal agreement as to my rigidity, although you are correct: We are firm and have to be on the no-new-taxes point. Then-Vice President Bush campaigned on that issue unequivocally and won 426 electoral votes. I think it ought not to be taken lightly.

I might just make two other comments, if I could. With respect to the income tax on upper-income people, the theory of tax reform, which was a long-time Democratic theory, at least among some reformers—since the mid-1960s with Stanley Surrey and others—the theory was that if tax rates get too high, among other things, the incentive to structure tax expenditures that then lead to abuse and a breakdown in the basic system, so that the rich on paper look as though they are paying more, but in reality are not. They have a higher written-down tax rate on a tax reform, but their effective tax rate, what they pay, is nowhere near that number—that that kind of a system destroys people's confidence in the tax system itself. And tax reformers said we will lower the rates across the board to a level low enough not only to be an incentive for greater work on the part of ordinary people but to be a disincentive for taking advantage of or inventing new tax dodges on the part of the rich.

I think that theory is sound. I think it is a good reformist theory that produces at least as equitable a distribution of revenue by income class as a high rate system.

That aside, tax reform was a bargain, a political bargain in which there were an awful lot of loopholes closed and a lot of preferences removed in trade for the lower rate structure. And I think you would find that Chairman Bentsen, who was very much a part of that bargain, and Chairman Rostenkowski thought it was a fair bargain and take the point of view that it ought not to be fundamentally challenged and reopened.

I respect your point of view. I am just noting that there is, I think, a respectable alternative point of view.

Lastly, on the question of cuts and hurting poorer people, I would hope that we can meet a test that you would fairly apply on that issue when we submit the Bush budget. I do not believe that the burden should be borne by poorer people. President Bush does not. And so I hope we can meet that test.

But, further, to return to a point Senator Rudman made, we have to be a little bit careful about our use of language and the use of the term "cuts." Revenues will increase by over $80 billion from fiscal year 1989 to 1990. CBO estimates a larger increase in revenues than that. And we have that additional revenue to allocate, to distribute, across a whole host of competing program claims. And that means that there will be increases in expenditures in some areas. And our vocabulary is not confined to a vocabulary of cuts.

Senator ROCKEFELLER. Mr. Chairman, if I might just ask one follow-up question—and I would appreciate the indulgence of not only yourself and the witness, but also the Committee.

I would like to ask you about one program—and this is, in a sense, unfair to ask you because, as you point out, you have not drawn up the budget yet. The Appalachian Regional Commission for 13 states—West Virginia is the only State entirely within the Appalachian region—has really been important. I might point out that twice as many children are being born into poverty in 1989 in West Virginia as was the case in 1983, and that is not very long ago.

My question is about your view towards the Appalachian Regional Commission, which not only helps support black lung clinics and health and education, but also is the mechanism to build a corridor system of highways which connect interstates. Do you have a position, or does the President have a position at this point, on the Appalachian Regional Commission, whether you would favor it or not?

Mr. **Darman**. I am sorry, Senator. I do not. Obviously, I will be happy to look into it carefully before we come forward——

Senator **Rockefeller**. Are you familiar with it?

Mr. **Darman**. I am only familiar with it as a label. I have never examined it programmatically. I am sorry. It just has not been in my experience.

Senator **Rockefeller**. I understand that.

I thank the Chairman very much for his courtesy, and I thank you, Mr. Darman.

Chairman **Glenn**. Thank you. We will start our second round of questions. I reversed the order and went last on the first round. So I will start off the second round in the usual order, and we will go by our early-bird rule, also.

Back to Senator Rudman's question about the unified budget and the bottom line we have. I think there are some differences on items that are trust funds and how we should approach them. I would appreciate your views.

Social Security, obviously, is long-term, and we are dealing with things where we quote these estimates of what the needs will be out in the year 2010, 2015, 2020, and things like that. These are guesstimates at the very best.

We have some other needs, however, for these trust funds that are here and now. We have got bridges about to fall down on much of our Federal highway system. We have an airport and airway trust fund. We need to modernize and update that system. Yet over the past 8 years, we have not spent the money out of those trust funds because in the unified budget it was going to show up as a lower bottom line. And I know from talking to people at FAA and others who want to upgrade this system that they cannot break money loose to do that, even though we pay a tax every time we fly on the airlines, 8 percent, that is supposed to go for that purpose and is supposed to maintain the most modern airway system in the world.

Now, how are we going to free these funds? If we break them loose and do what has to be done and what needs to be done, then it shows up as a worse bottom line. The alternative is to take trust funds off-budget. Yet the GAO study shows if we took the trust funds off, our deficit is $263 billion. A $263 billion deficit estimate instead of what we think we have.

That to me is a more accurate bottom line than the other figures where we keep all these trust funds but will not use them. They are just used as a compensating balance, in effect, and not used for the purpose for which they are being collected, which could be considered unfair to the American people.

Now, how do we do this? Do we either crack those funds loose so that we are providing for safety and health and airway upgrading? Do we break them loose and do the things that they are collected for? Or do we have to take them off-budget in order to do that? If we take them off-budget, then you are facing a $263 billion deficit.

Mr. DARMAN. Well, Senator, I have already suggested that I do not think that we should take them off-budget. But I do think that the GAO is right; that we ought to highlight reporting of our fiscal plans and fiscal condition in a way that more clearly shows the status of trust funds and shows what is happening to operating budgets when you pull trust funds out.

I have no quarrel with the analytic point or the desire to see this presented differently with a more clear picture as to what you have referred to as our real position. Our real position, for purposes of seeking debt from the public, of course, is more accurately reflected by the unified budget, and that is its main purpose.

We have many different interests, and we need to present the budget differently in several different ways with these different interests in mind.

I agree with you that there are differences to be made even among the trust funds, and the suggestion that they should all be treated in the way that Social Security might be seems to me to be incorrect. In the case of Social Security, one of the reasons that the trust fund exists and will be experiencing a buildup is that we anticipate a demographic problem where the ratio of people employed to people retired will be declining. And in order not to put a very high tax burden on some future generation of employees, we are spreading the burden over a longer period of time, in theory, and building up a reserve that will be paid down in time.

That is not the intent with respect to several of the other trust funds, as you suggest. On the other hand, I do not think we need to go so far as to say that every dime in is to go out exactly when the dime comes in. There has got to be some flexibility. But we should not be seeking to build large surpluses in trust funds where there is no obvious purpose for such a large surplus.

I do not think it is unreasonable, however, to take a serious look at what is the fiscal situation, how much borrowing do we have to do in the market, and how urgent are the needs for current expenditures from some of these trust funds, and balance these things in coming up with a budget. I do not think we should be so rigid as to say every dime in has to go out in the year that it comes in.

Chairman GLENN. I certainly agree with that, but let me ask a specific question. We have increasingly complex requirements for maintenance inspections on airplanes. FAA should be overseeing that. They have not been able to get the funds to increase the numbers of people. We have an airway system they have designed that is ready to go. We cannot get the money to even start that system. It is going to be an expensive system. But it will make the travel for every single person in this room much more safe.

And if the air traffic control system itself, for lack of modernization, is responsible for a couple of airplanes going down, with a large human toll then there is going to be an enormous hue and cry about why we did not get going on this, and justifiably so.

It seems to me that we have to place the benefit of what we are trying to do ahead of just that bottom line of the national budget, particularly on the trust funds. They were collected for a specific purpose. We are not using them for that purpose because of other budget considerations. And the comparative levels of safety are going down and will continue to go down.

Under deregulation, we have all sorts of little airlines popping up all over the place. I rarely go through a major airport in this country where I do not see two or three little new airlines added to the list of those already in the business. We need more maintenance inspections, as we found out just in the last few days here when inspections, perhaps, could have mitigated what could have been a very dangerous situation. No lives were lost, but I predict we are going to see more of that unless we start updating this air system on which we depend for business, industry, and travel in this country.

So I think there is a level here of public safety and health at issue, quite apart from the long-term issues of things like Social Security. We either have to restrict air travel relative to the numbers of people that can oversee the maintenance properly, and make sure it is being done properly with FAA oversight and supervision. We either have to start restricting air travel to the means that we are willing to spend on it, or if we are going to let the system expand, we absolutely have to spend the money to upgrade it.

Mr. DARMAN. I can only tell you, Senator, that I would take your point extremely seriously. I have not analyzed the extent to which the system is likely to break down. I can promise you that I will give it serious attention.

I have no doubt of the legitimacy of the claim to the budget. What I do not have a concrete feel for is the exact magnitude and the immediacy. But there is no doubt it is a legitimate claim.

Chairman GLENN. That is one area—the immediacy of it—which has been long since proven over the last several years. I see our safety gradually eroding unless we do something about it. We have the money. It was earmarked for that. It was collected for that, and I think it should be used for that.

Let's go back to our competitiveness again. Almost every industrialized country in the world has a Ministry or a Department of Science and Technology, or Industry and Technology, or something of that type. We do not. And I proposed back some years ago that we go to a Department of Science and Technology to coordinate all of our research efforts so we get the biggest bang for the buck out of the research dollars being spent. We could better coordinate these things. Right now they are all over the lot.

Now, I was surprised at that time by some of my opposition. Instead of getting support from the scientific community, I got opposition from it. And it turned out in talking to some of those people individually, their main concern was disturbing any current means of federal support. And so we talked about it for a while and then laid it down. But I have not given up on the idea yet that we should go to that kind of a department at the Cabinet level.

Now, that does not mean I want to proliferate Cabinet positions. I think we could take either Commerce or DOE, either one, perhaps, and make it into that kind of a department and further combine some of these other functions. I will not try to get into details of this or what should be included in it. But have you had a chance to look at that or have you thought anything about that in the past? Because, right now, we are beginning to be out-competed by

Japanese, Germans, French, and others. I do not think we have the option of just waiting and seeing whether a tax incentive will work in industry. It just seems to me that the long-term research is a high-risk investment, but the payoff is the future of this country and whether we are going to be competitive or not.

Do you have any thoughts along that line?

Mr. DARMAN. Yes, sir. You referred to the possibility of an industry and technology alternative, and then another, the science and technology.

Chairman GLENN. Well, it would be one or the other. I was not proposing both.

Mr. DARMAN. There is a distinction, though, in my mind.

Chairman GLENN. Yes.

Mr. DARMAN. The industry and technology, when we start down that line of discussion in Washington, we end up building, it seems to me, a department that looks an awful lot like a potential protectionist department, a department of protectionism instead of a department of science, technology, pioneering endeavor. So I prefer starting down this path under the heading that you have used, science and technology.

Under that heading, though, as you know, I am sure, perhaps better than I, one immediately encounters some difficulties, bureaucratically and politically. NIH is a very large and, by and large, a very successful institution. It may be said to be inefficient, but the fact is the United States is still ahead of most countries and in many areas is number one in an awful lot of areas that NIH is responsible for. So NIH, which is very big, NIH likes to say, well, we should not be part of that, and the whole community rises up to say they should not be part of that.

Then, of course, NASA is another big piece that is importantly related to science and technology. It has its own very large constituency.

And as you know, if you were to exclude those two big pieces, then you are missing an awful lot that is highly relevant. But if you include those two big pieces, you run into an awful lot of political and managerial hurdles and arguments.

I am sympathetic with looking seriously at how better to organize for our own development of science and technology. I am only just trying to note that I am also aware of the complications.

Chairman GLENN. And the other agencies, in addition to the ones that you mentioned, could be integrated, such as DOE, NSF, National Institute of Standards and Technology, NOAA, NASA, and the National Institute of Occupational Health and Safety. There are, I am sure, other agencies. So it would have to be looked at very carefully.

Mr. DARMAN. There are people, as you know, in the scientific community, some of whom argue for reasons we could question, but others who argue, I think, for very legitimate reasons that there is some value in having a somewhat more horizontal, more pluralistic approach to the development of science. And they fear a world in which this sort of top-down management of science, especially basic science. And I think that there is legitimacy to those concerns. But assuming that they could be attended to somehow or other, you would have to have quite a horizontal organization.

Chairman GLENN. I share those concerns, and I think there is a lot of debate we would have to put into this and a lot of thinking about what would be included and what should be left out and the reasons for that. But it just seems to me, in my observation, through the years we have wasted an enormous amount of research dollars by proliferating all over. You go to some labs. Perhaps you have also been to a different lab. And the one lab did not know that the other lab even had the same project they are working on, funded out of a different Government source. We are very duplicative.

Mr. DARMAN. It is true even in the private sector in research management, though. Research management, as I know you know, is a tricky business.

Chairman GLENN. It is, and it is one that we would be glad to talk to you about. I am sure we will be approaching you with some ideas on this later on as to what we think should be done.

Senator Heinz.

Senator HEINZ. Thank you, Mr. Chairman.

Mr. Darman, I would like to ask you a few questions about the FSLIC, which is something that we will all be dealing with sooner rather than later.

As you are probably aware, during 1988 the FSLIC issued tens of billions of dollars in the form of promissory notes on the one hand and assistance agreements on the other. Some assistance in the form of yield maintenance agreements guarantee the new thrift owner certain return on covered assets. Other assistance in the form of capital loss agreements indemnify the new owner against losses on the sale of covered assets.

While the issuance of promissory notes is counted as outlays when issued, neither kind of assistance agreement—that is, the yield maintenance agreement or the capital loss agreement—show up in the budget until the FSLIC makes payments under the agreement. We know, of course, that the FSLIC will have to make payments of billions of dollars under these agreements, but you cannot find—at least I have not been able to find—those obligations anywhere in anyone's budget.

Two questions: First, why should we treat either kind of assistance agreement any differently from the promissory notes, both obligated to pay billions of dollars? And, second, why should we not score the cost of those assistance agreements when the FSLIC signs them?

Mr. DARMAN. Well, I think that the distinction would be made and could legitimately be made on the grounds that the promissory notes are immediately full faith and credit obligations, or at least they have been judged by some, GAO, to be a full faith and credit obligation of the Federal Government. And you are just giving the recipient the equivalent of a bond. So the scoring is appropriate as——

Senator HEINZ. Scoring it as an outlay.

Mr. DARMAN. That is right, which is the way it ought to be for the notes. The question is: Why wouldn't you extend the same principle to the other two categories? And the reason, I think, is that they are contingent. They depend on performance one way or another. You do not know how much of the yield maintenance agreement you are going to have to actually pay. And you do not know how much of the capital loss indemnification you are going to have to actually pay. So, for those, when it comes to the outlays, they should be budgeted on the basis that estimates how much will be incurred under each of those headings in each year. And that is when the money will be expended, and that is the way they ought to be treated.

I think you are right that we have not yet had a basis, at least to my knowledge, for a full examination of those agreements in order to determine what the future outlay obligations buried under those two headings really may be. And we need to do that, and I hope we will be able to get at least a good start on that for presentation in our own S&L plan and in our budget.

Senator HEINZ. Would you not agree that under the current system of differential treatment between promissory notes and assistance agreements there is a built-in incentive for the FSLIC to minimize the use of promissory notes because of the way they are scored—namely, as outlays—and to maximize the use of open-ended entitlements to the new buyers of these S&L's, with a consequent increase in Government exposure if they do not do a good job running the S&L's?

Mr. DARMAN. Right. This system must stop. This system is not fully responsible. I am not saying that the particular deals—I am not trying to criticize. I have not seen the terms of the particular deals. I am not trying to criticize them one way or another. But as a budgeting procedure, this is not subject to sufficient accountability within the Executive Branch, and as between the Executive Branch and the Congress. And it has to be improved.

It is not just the points you have made but the notes themselves. The notes themselves, as we saw in December, can be written in whatever amount one wishes to estimate, can be covered by future revenue streams of one sort or another without any limitation or authorization whatsoever, particular authorization by the Congress or by higher authorities within the Executive Branch. So, indeed, there has been a substantial run-up of the fiscal year 1989 budget reflecting those outlays for those notes that had not been planned or authorized by the Congress or, I would have thought, higher levels in the Executive Branch.

That has to be put under somewhat greater discipline.

Senator HEINZ. Are payments for assistance agreements open-ended outlays?

Mr. DARMAN. That is right.

Senator HEINZ. Are the outlays likely to be far greater for the assistance agreements than for the notes.

Mr. DARMAN. We do not know that. We only know, at least I only know what the Federal Home Loan Bank Board has estimated. But OMB and, of course, Treasury is getting into this in greater depth, looking at the actual agreements and making estimates as to what the future outlay costs associated with those will be. And I agree with you we need to be explicit about them. They will show up as outlays. We need to know how much and when.

Those will be estimates, and they are potentially wrong as estimates, of course. But we need at least to have a clear and somewhat reliable picture of that.

Senator HEINZ. What parameters do you believe OMB should operate within in order to avoid even more off-budget financing by the Federal Government, most specifically by the Treasury, than we already have? And will you support schemes that do increase off-budget borrowing to bail out the FSLIC?

Mr. DARMAN. I am not aware—in fact, it is my best understanding as of about 10 of 9 this morning, it is my best understanding from Secretary Brady that Treasury has not reached a conclusion on what approach to recommend. So I do not want, by responding, to be suggesting that I can accept that premise, the premise that assumes that Treasury would be making payments on bonds or guaranteeing. I have no reason to believe that that is what Treasury will recommend, or that it is not what they will recommend.

That said, I would make a distinction between the FICO bond system that the Congress did authorize and which was judged to be off budget by both OMB and CBO, and a proposal that would involve Treasury payments on those bonds. There are not Treasury payments for the original FICO bonds. They are financed by private sources, and so they are appropriately off budget, in my opinion.

To the extent that the FICO system is continued with private resources, it should stay off budget. To the extent that there has to be a Federal contribution in order to cover the interest payments on the bonds, whatever extent that may be, that interest contribution should clearly be on budget.

Senator HEINZ. Suppose that FICO cannot find a way to come any place close to borrowing from the capital markets the $85 billion, or some substantial fraction thereof, that you and/or others have estimated the FSLIC has to come up with. Suppose the only way that such a large amount can be financed is through borrowing debt in the form of a Treasury equity transfusion of $10 billion. And, if Treasury puts in that amount of $10 billion, people with sharp pens and sharp minds can figure out a way to leverage that up to $85 billion—which is not unlike what FICO did.

Since the Treasury equity contribution, hypothetically, of $10 billion was the only action that made possible the borrowing from the capital markets of $75 billion in this example, would you consider, therefore, the totality of the financing to be off-budget financing, to the exclusion, obviously, of the Treasury $10 billion which is clearly on budget?

Mr. DARMAN. I would have to think about that. My inclination would be to say—no, I would have to think about that.

Senator HEINZ. Thank you, Mr. Chairman.

Mr. DARMAN. I am sorry. It is——

Senator HEINZ. That is all right. I have the feeling you are going to be faced with an interesting scoring decision not unlike that.

Mr. DARMAN. Yes, I have the same feeling.

Chairman GLENN. Before I go to Senator Lieberman, I think we may have a change of schedule here. Mr. Darman has passed me a note that he has a picture and a meeting with the Cabinet at 2:15, and a 4 o'clock meeting with the President directly. He also has a nuclear cleanup meeting in between which I would not want to keep him from, I can guarantee you.

I had thought we might go into an afternoon session. I think if it is all right with you, Mr. Darman, we will have a late lunch today. We will go until 1:30, and that will be it. And the Committee will vote. Anybody that wants to question has to get in by then.

Is that satisfactory?

Senator STEVENS. Eminently satisfactory.

Chairman GLENN. Without objection, that is what we will do. We will go straight through until 1:30 and break, and that is it. So all the people representing Senators' offices here, if we can have our vote at 1:30 and get people here, that is what we would like to do.

Mr. DARMAN. Thank you very much, Senator. I do appreciate your accommodating that. I had taken you last time to suggest we might be done by noon, which is the reason that I said that I would attend those meetings.

Chairman GLENN. I had thought on Thursday that probably I and maybe one or two others would be the only ones showing up, and we would have plenty of time to address things. We would have been done by noon. That was my intent. Obviously, a lot of people showed up with great interest in your hearing. But we will end it at 1:30 whatever status we are in at that time.

In the economic area, once again, does President Bush plan on continuing the White House Economic Policy Council? And if so, what will be its role in coordinating, and who will chair that, and who will the agencies be that would be part of it? Do you have any answer to that yet?

Mr. DARMAN. It is my distinct impression that he intends to keep that council. I do not know whether it will have exactly the same name. And I believe it is his intention to keep Secretary Brady as the Chairman or the Treasury Secretary as the Chairman. I would assume, although I have not seen anything on this, I would assume that the membership would be roughly the same as in the past; that any agency with an interest in economic affairs would be either formally represented or welcome any time an issue related to that agency were discussed.

Chairman GLENN. The principal participants in the past I believe has been Commerce, USTR, Treasury, State and OMB. Is that probably the same line-up?

Mr. DARMAN. I believe Labor has been a participant fairly consistently in the past. And I would think that, as in the past when, say, for example, farm policy issues are involved, then the Secretary of Agriculture attends, or housing issues, the Secretary of Housing attends. But the core group is roughly as you suggested. Yes, sir.

Chairman GLENN. I got carried away with thinking about things, again, instead of watching the administrative functions. I cut out Senator Lieberman again. Go ahead.

Senator LIEBERMAN. I do not mind, Senator. I am glad to wait until you are finished.

Chairman GLENN. No, no. Go ahead. I was off on this. Go ahead.

Senator LIEBERMAN. Thank you, Mr. Chairman.

Mr. Darman, I want to return to our discussion earlier about the savings rate because I think it is central, as I am sure you do, to the kind of long-term growth of the American economy that you have spoken of in your testimony here. I share your suspicion that there may be cultural pressures or inducements at work here, such as television, that affect the dramatic decrease in the savings rate from, according to one estimate I saw the other day, 7.5 percent in the 1970's, down to 1.8 percent in the 1980's. I am referring to a combined public and private rate.

I also accept your notion that there is a role for moral leadership. I take it that you mean people in positions of public responsibility as well as, perhaps—although this may be more than we can hope for—people who decide what is on television. But beyond that, human nature being what it is, I do not believe that that kind of moral leadership is going to be enough.

I am impressed with, and I certainly agree with, the aggressive kinds of long-term economic thinking you have been putting forward here, including your responses to the questions that Senator Glenn asked about the R&D credit and the role that that might play in encouraging economic growth.

What do you see as an appropriate Federal Government intervention in the savings decisions that people make?

Mr. DARMAN. Well, Senator, thank you for the question. As you can tell from my prior answers, I have a pretty clear sense that there is a problem. I do not have anywhere near as clear sense what the solution is. Maybe several years ago I would have confidently answered that we ought to restructure the tax system in certain ways. I have noticed in the interim that a lot of people who thought that the particular ways we approached were going to increase the savings rate have not had the experience yet validate their hypotheses. So I am a little hesitant to jump forward with suggested solutions.

Obviously, if we get the deficit down, we will, in those statistics, use that or variations on the same theme. Normally, the decline is split about half and half between public and private, and about 3 percent of the decline is public and 3 percent is private.

The 3 percent that is public would go away if we balanced the budget. So we would have a measured savings rate that we are improving just by doing what we do on the public side. But it is my sense, and I suppose yours, that that is still not enough. Yet what more to do, I do not have the answer.

Senator LIEBERMAN. Let me ask you this question specifically: It was my impression that Federal tax policy, as expressed in the IRA's that people got into in recent years, was effective in encouraging that kind of saving. How do you evaluate that experience and, I suppose, the loss of that incentive now?

Mr. DARMAN. There was a lot of academic work on this subject that argued to something close to a draw. There is one respected school of economic analysts who can demonstrate to their own satisfaction that the IRA incentives—let me back up a step.

Anyone can demonstrate that the existence of incentive for IRA's increases investment in IRA's. That is the easy part. The hard part is analyzing what has actually happened to overall savings, how much is net new savings thanks to those incentives. And there economic analysis split about down the middle. The school that says it is not a contributor to net new savings argues that those savings may have increased some with the start of the IRA program. Once you go up against the point where people could not easily reduce consumption to get the benefit, the incentive stopped having the effect. It was not reducing consumption.

The counter school takes the early years of experience, uses those to support the argument that we should have continued the IRA test, saying that it did not go on long enough to demonstrate how right they would have been with time, or how much more right they would have been with time.

Anyhow, it seems to me I looked at all that evidence in the context of tax reform, and it was arguable on both sides. And I did not see that there was a really persuasive case that you were going to get at this fundamental problem through IRA incentives.

Let me just say I think they are a good thing, they are a nice thing. It would be nice if we had more relatively small savings incentives and so on in the system if we could afford the short-term revenue loss. But if we think that is going to fundamentally change our savings pattern, I would be surprised.

Senator **Lieberman**. So this is a policy question for which you do not have an answer that you are comfortable with right now. I suppose I would just leave this issue with the confidence that you will continue to pursue an answer that would give us some hope of encouraging an increase in the savings rate through governmental policy.

Mr. **Darman**. I would love to know what the right answer. I just unfortunately do not know what it is right now.

Senator **Lieberman**. Okay. A different line of questioning, again, going back to the management side of OMB as opposed to the budget side. When the Comptroller General testified before us last week, he and his people suggested that they knew there would be overruns in existing Department of Defense programs, particularly shipbuilding, the bomber programs, and some of the sophisticated missile programs. But they really did not have enough information about the dimensions of those overruns. There was not a system in place that would even allow them to estimate the extent of the overruns with any sense of confidence.

My question to you is: Are there systems in place at OMB, or do you contemplate installing such systems, that would help you, as the director, to keep a hold on those overruns and to give timely information to Congress? I am asking the question particularly because we as a Nation are still in the process of spending some of the relatively large appropriations that were made over the last 8 years for defense programs.

Mr. **Darman**. I care about the problem. I want to examine what the reporting system is and how it can be improved, and will do so.

With that said, I need also to say I think it may be hard. It is not all that easy simply to give a command—forget OMB—even within the defense apparatus. Much as they do respect authority, even with clear requirements for certain kinds of reporting, somehow or other this problem persists. This is not new.

When I was at the Defense Department in 1972, 1973, this was the big hot issue. And in one case, we had a claim from a very well-known defense contractor that was about one shelf long. It was just a place-holder. It had a page in the front and a total, and all the rest in between was blank paper, with the details supporting the claim to be provided subsequently. But they wanted to lodge the claim formally so that they could put the claim on the balance sheet and borrow against it and go acquire some other companies.

So when you try to figure out exactly how are you going to analyze a shelf of blank paper, however timely it is provided to you, it is not quite that easy. And I am not saying the system is still that bad. I have been led to understand that it is not. On the other hand, it is a pretty complicated world, and a lot of people have tried to get a hold of this problem and have not succeeded.

Senator LIEBERMAN. The yellow light is not on so I will ask this: You have a skill for, I think, describing in plain language complicated problems. From your experience at DOD and your general experience in Government, why the continuous cost overruns at the Department of Defense? Is there no way to get a hold on them?

Mr. DARMAN. I would consume too much time. It is an extraordinarily complicated world. Basically, to be—this would not, I would hope, get any widespread circulation. [Laughter.]

In a certain sense, we are dealing with what you might consider a mini-socialized economy with all of the trappings of free enterprise. It is a very strange world because there is only one consumer. And that consumer controls everything, but we need the illusion of a totally private, fully competitive system. So we have structured in a whole host of contracting procedures that—I cannot give you the short answer you want on this subject.

It is unquestionably messy. The question that is really hard is: Can anybody design a significantly better system that will work? A lot of people have tried. And we will certainly try. I mean, this is going to be an area of major emphasis in the Bush Administration, and the President has committed publicly to that. And I believe Senator Tower will in the course of his hearings and so on.

I am just saying that I think it is a little bit harder problem than just an easy answer might suggest.

Senator LIEBERMAN. I understand that, and I appreciate your answer and your willingness to work on it.

Chairman GLENN. Senator Stevens.

Senator STEVENS. No more questions.

Chairman GLENN. Following up a little bit on Senator Lieberman's question, we have 80 to 100 major weapons systems in DOD that cost $1 billion or more. Do you have any estimate of what the cost overruns are going to be in those areas, what you will have to be dealing with in the budget? And how do you get yourself cut into that information loop?

Mr. DARMAN. I do not think it will be that hard to get cut into the information loop. The question is whether the information is really reliable.

I have seen the GAO estimates, of course, and I do not yet have the OMB analysis of this. But I have talked with Senator Tower and with Brent Scowcroft, and we have agreed that we are going to have a process—we have not got the details worked out, but a process that does in a cooperative way try to really get on top of this. But I do not now have the numbers at the moment.

Chairman GLENN. All right. On another issue, we know there is legislation going to be introduced this week, I understand, to elevate EPA to Cabinet-level status. Do you have a view of that proposal?

Mr. **Darman**. No, I did not know that that was going to be introduced. I used to hold the view that the Cabinet ought to be kept relatively small, but events overtook me. I mean, it is almost ridiculous at the moment.

I mean, I do not mean to suggest that EPA is not worthy of Cabinet rank, but there is a point at which pretty soon we will have 50 or 60 agencies of the Government that are deemed Cabinet.

Chairman **Glenn**. Yes, I am concerned about the proliferation of Cabinet status, too, and I think President Bush has indicated his concern about that also. The proposals I was talking about a while ago on a Department of Science and Technology, or whatever its title would be, or EPA, I think should be established, if at all possible, without proliferating the number of Cabinet spots. It should be done either by combining it into a new agency that would take an existing agency or whatever. However, I am not wed to that. But I am very concerned, too, that every single interest is going to want its own Cabinet slot, and I do not think we can probably do that.

Mr. **Darman**. Senator Glenn, if I could make one comment, my tendency is to go in the direction I think you would wish to go in. But if I could just note—perhaps you would disagree with this, and I mean no disrespect to the Congress. But I do think that reforming the congressional structure is inter-related with reforming the Executive Branch structure. As long as changing, consolidating and making a smaller number of departments would have the corresponding effect of shrinking the number of Senate Chairmen with jurisdiction, there is a built-in disincentive to move in that direction, organizationally.

Chairman **Glenn**. There is a great disincentive in moving toward anything like that, such as turf fights on Capitol Hill, as you are well aware. Turning to the area of management, your predecessor, Jim Miller, I believe, indicated, I do not remember his exact words, that the M in OMB is pretty moribund or was virtually non-existent. We are very concerned about that assessment. Obviously, our questioning so far has not gotten into that area and I wanted to cover that just a little bit.

We will be revisiting some of the management issues when we confirm the Deputy Director and the Administrators of OIRA and OFPP, the Office of Federal Procurement Policy. We have a reauthorization exercise to undertake for OIRA. How these things are administered and what we do with them is going to be largely determined by what your oversight and management.

Can you discuss just a moment about how you plan to get into the "M"? We have observed, through the years, that M in OMB is pretty much dead. You get done with one budget just in time to start on the next one. And so, the follow-up on better efficiencies of Government—and if you read in the law what your mandates are, the words efficiency and monitoring of efficiency come up over and over and over again.

Now, you replied, in one of your prehearing questions, that management and budget, in your words, I think, should be linked intellectually. You further commented, and I quote, a management agency without budget leverage would not be successful in achieving management reform. I could not agree with you more.

I think that is a proper response. I hope it gets carried out. Can you elaborate on how you plan to get into this area of carrying out the efficiencies of Government from OMB, and I agree that that is an ideal spot to do it. But I am curious about how you plan to do it.

Mr. Darman. Well, Mr. Chairman, I am aware of the history of OMB directors making early promises to attend to the "M" and in doing so, I think in good faith and I am going to make the same promise in good faith. And then what happens is, reality sucks them into the budget process and the authorization process for certain substantive programs and they get consumed. That even happens to the deputies and has happened to the deputies.

I would hope that I can set aside enough of my own time, with some degree of discipline associated with it, even if it means preposterously long days as I am sure it will, so that there is reserved an amount of my own time for "M" and the same for the deputy, more or less come heck or high water.

I do not know if that will work, but that is one little step. Now, in addition, when I was first coming into Government, is when the "M" was put into OMB. And in those days, there were some systems employed that have, to some considerable degree, degenerated since and with good reason in some cases. But there was a much more vigorous program evaluation function performed in those days in OMB and in the departments.

There was a much more active system of monitoring management by objectives. I would like to see us rebuild some of those capabilities. Having learned some of the lessons of the past, which were that those were overly ambitious and overdrawn, we have now gone too far in the other direction and I would like to strike some balance in between, with some fairly simple systems for both program evaluation and management by objectives, but focused on a carefully chosen manageable set of priority interests, not trying to be comprehensive budgeting and management systems as they tried to be in the past, but being much more carefully targeted, at least as a first step.

As you know, we are kind of resource thin at OMB and likely to remain so and for that reason, but also for many other reasons, I think the systems have to be simpler than they were in their heyday, but not so simple as to be nothing.

I would also like to see us do more long-term analysis. I appreciate the work that GAO has done and that you have highlighted. A lot of that kind of work should be done in the first instance by OMB. There are analytic organizations in OMB, special studies units, that I am at least looking at, trying to make better use of, for some of these long-term analyses.

I do not yet have the answer on how I would like to structure that, but I am starting down that path. Anyhow, there needs to be more program evaluation, a simple management by objective system on key priorities, and more long-term analysis of a select number of problems, not everything, and more of the director and deputy director's time that is actually segregated.

I might say in addition that I have thought it would be desirable to have an executive associate director or some additional person exclusively for management. If we lived in a world that was not so constrained, I would say there ought to be a deputy for management and I know that was once proposed by this Committee and not supported by the Administration.

I would actually favor something like that, but I am not asking for that. But we need functionally to have something like that.

Chairman GLENN. Well, this Committee has, in its mandate, too, the word efficiency. We are the Committee that looks into not only the organizational aspects of Government, but efficiency across the board. We wind up trampling on other toes around here sometimes by getting into other Committees' jurisdictions when we look into some of these things.

But we share these concerns about efficiency and pursuant to that, through the years since 1970 really, this Committee has passed a number of laws to beef up management functions—the Office of Federal Procurement Policy, OFPP; debt collection; Paperwork Reduction Act, among others.

It may be time to review some of these laws to see what changes are necessary. They go back some years and have, too often, we feel, been ignored by OMB, which is in the ideal spot to really do something about them, and make them work across Government.

I would hope that you would be willing to come back up, say in 6 months, and testify as to where we stand with the "M" in OMB and what we need to work together on to change it. If we need legislative changes, let's work together to do it. If we do not, and you have plenty of authority to make them work and to do that, we are going to be quite happy about it. Could you come back up here in 6 months and testify?

Mr. DARMAN. I would like to do that. It is a good discipline on me.

Chairman GLENN. Good, that is fine.

In transmitting the latest—this is back to the pay raise question—in transmitting the latest Quadrennial Commission pay recommendations to Congress, President Reagan said, and I quote, the "funding for the pay increases will be fully absorbed with proposed budget levels and will not increase the deficit." I do not know quite how we do that. These are several millions of dollars here.

It means either the budget for the particular departments was too high to begin with or we cannot absorb it—one or the other. How are we going to do that?

Mr. DARMAN. Well, you are right, analytically, and it is certainly difficult. We are looking at that with respect to the Bush transmittal. The problem is, sometimes particularly acute, as you know, for small agencies that are all people. If that has to be fully absorbed, then basically you have to cut a substantial number of people in order to have the pay increase. It affects agencies like OMB, which gives us a special incentive to examine this question.

Chairman GLENN. Well, if they can do the job with fewer people, they should be doing it to begin with. I guess that would be the answer to that one.

Mr. DARMAN. In some cases, I am sure they can do the job with fewer people. I have no doubt about that.

Chairman GLENN. I am skipping around here. Another question here, back to OMB functions.

We have toyed, from time to time, with the concept of periodic authorizations for OMB. Now, there are advantages to that and there are potential disadvantages. I am concerned that the oversight authority for the Committee ends with the Director's confirmation.

We do get into all these other areas—OFPP, debt collection, paperwork reduction, as I mentioned. What is your response? Would you welcome that or would you be against having that kind of authorization?

Mr. **Darman**. I do not have a strong view, but I would have thought that you have enough with the review of the authorizations for certain sub-pieces of OMB—paperwork and OIRA—that what we are dealing with here is not a function that is ever going to go away. It is inherent, presumably, in any Government that is above the size of a city—no, less, a household—no, less than that. I mean, it is inescapable.

So, I do not know what exactly we would be reviewing because I presume the functions would have to continue.

Chairman **Glenn**. Well, I think that almost every function of Government has an authorizing Committee that, in effect, looks over its functions to see whether they think it is being done right; or is it efficient; or is it not; is it performing the function that it is supposed to perform under law.

Mr. **Darman**. A lot of OMB is delegated from either actual or inherent presidential powers and there is not a reauthorization of those presidential powers. But anyhow, it seems to me that I would have thought, from your perspective, the more important thing is to have serious oversight hearings with respect to the functions that are supposed to be performed.

Whether it is done through reauthorization or not, I would have thought is secondary. What really matters is that you and anyone who is in OMB have a clear sense of what OMB is expected to do and that there is some accountability. If we have to come up here and explain how we are doing and whether we are doing it right or wrong——

Chairman **Glenn**. Well, that would be the purpose of having authorization authority for this Committee or whatever Committee did it. I presume it would be this Committee. If we went that route, it would be, as with every other function of Government, to have somebody that oversees it and has an accounting, on a regular basis, as to how it is being done.

Now, you are correct that we can pick out the pieces of which are sub-functions under your direction and that we can look at those. But as to the overall functioning of OMB which we have been concerned about in the past, that is left out of the authorization process, along with a couple of other areas of Government. But it is one that we might want to talk about further because I think it would be more consistent with how we do everything else around here, if we did have that kind of authorization process here.

Mr. **Darman**. Could I just say, Senator, that you do some things in a way that is not entirely consistent. For example, the process of prior questioning of nominees, which I think is a good process, even though I never experienced it before, and it is not very pleasant, one of the things you are doing is, you are giving more meaning to the advise and consent function. You are making the process more informed, and that is an important role.

It seems to me the oversight function can be performed and it varies very widely across the Congress. It can be performed much more aggressively and valuably without having to put it in a framework of reauthorizing OMB.

The reason I mention this is, my suspicion is that we may end up in an argument that I would just as soon avoid, that will involve this peculiar status of OMB as sort of half in the White House and half in the world of departments. It is in this netherland dealing with some—it is not exactly a netherland, but a good portion of it is dealing with presidential authorities.

Chairman **GLENN**. Ted, any time you want to jump in, if you have any questions, jump in.

Senator **STEVENS**. Mr. Chairman, I did forget one thing, and I thank you for letting me jump in here. I did not put on the record, and I have been asked but I have not discussed with you here, the problem of taking the Postal Service off budget.

I am sure you recall that conversation. I have submitted a memorandum to you, Mr. Darman, to follow up on my assertion that taking the Postal Service off budget will actually prove to have a beneficial effect on the overall deficit for at least 3 years.

I do not see any reason to get into it. I just want to put on the record here today that we had that conversation, so that my staff and others who are bugging me will know that I have raised it with you.

Mr. **DARMAN**. I will verify, Senator, that we had the conversation, and I did receive your letter, and it does have some attractive elements, as you know.

Senator **STEVENS**. I hope it is a sufficient magnet that it may attract you even more. I do not want to push you on that policy decision, I just do feel very strongly. It was the resolution I introduced last year that put the Senate on record that we favor taking the Postal Service off budget.

It should never have been on budget, it was not on budget originally. It has not functioned well on budget. It has been a severe problem, as a matter of fact, for the ratepayers that the Postal Service did go back on budget.

So, that is one of the things, Mr. Chairman, I think that, if we do not push my good friend, perhaps he will come up here with an original idea one of these days saying, "I think we ought to take the Postal Service off budget." We will welcome that.

Chairman **GLENN**. Let me ask a new and startling question. Do you favor taking the Postal Service on or off budget?

Mr. **DARMAN**. I would have to duck using it in its conventional sense at the moment. I would say this. I would think that it is unlikely that we will score it as off budget in the initial Bush presentation. I would be happy to explore further with you whether we could come to agreement on a way of treating it.

I have learned a little bit more about the counter-arguments having been lobbied by people who have traditionally taken the opposite position from yours. So, I would like to discuss it further, if we could.

As you know, it would save us over $1 billion right a way, in terms of budget score keeping.

Senator **Stevens**. As soon as your predecessor is absorbed in this new job, he will stop lobbying you so much. Maybe we can bring reason back into the government in this regard.

Mr. **Darman**. You will not see us passing your test of reasonableness until some time after February 9, but just when, I am not sure.

Senator **Stevens**. Thank you.

Mr. **Darman**. Thank you, Senator.

Chairman **Glenn**. OMB's management role for state and local government regulations is an area of concern, also. Despite the major budget cuts in Federal dollars going to state and local governments in the last 8 years, it strikes me, in particular, that the amount of regulation and paperwork with which State and local government must deal, particularly smaller governments, has grown and not decreased.

I get complaints every time I have a group of county commissioners or State officials come in. They just sort of throw up their hands about the amount of paperwork that is required to do even the most minor dealing with the Federal Government.

You noted in your testimony that there are over 500 separate grant programs, spending over $130 billion, administered by 28 different agencies. There is a tremendous need for coordination and standardization of the requirements that go along with this.

We have been encouraging that agencies do a better job of using the Regulatory Flexibility Act provisions for small governments. Would you tell us what you think the OMB role in this area is, and what ideas you might have on minimizing the regulatory burden faced by state and local governments?

Mr. **Darman**. It is not something that I know a great deal about, at least not on a current basis. I used to know more about it in the early 1970's, when the original grant programs were proliferating and I was at HEW. We were responsible for several hundred of them at HEW, alone.

It is a genuine problem; of that, I am sure. I did not know, until I received your question on the subject, that there was the flexibility to provide relief for smaller governmental units. That seems to me to be an attractive possibility.

I said in response to the question, and I mean, that I would look into our attempting to assure that departments and agencies pay more attention to that authority and provide relief for smaller governmental units.

For larger governmental units, I am afraid that a good portion of the problem is in the Federal program structure, itself. I mean, the best solution, which we all have been talking about for at least 20 years, would be to simplify the Federal program structure; but we do not seem to be on the verge of doing that.

So, I am afraid that we will be stuck with a complex regulatory system, as long as we have these many, many, many, many different but overlapping programs. The more basic way to get at it for larger units of government is to provide some flexibility across programs.

I was associated with a proposal to do this back in, I think it was 1971. We were aware of the problem, and suggested that you could provide some broad categories and freedom for states and localities in certain circumstances to move money around within these categories. They would be allocated in the first instance through the regular program and appropriation structure; but once they got them under certain headings, they would be freer to administer within those headings.

If they chose that option, the regulatory framework would be a more general and somewhat looser one, although still attending the concerns for civil rights and other things that people are rightly concerned about.

That was not approved by the Congress. Generally speaking, efforts to simplify the grant structure founder, again, back here, I think, in the Congressional committee structure.

I am not trying to pass the buck, but I do think it is shared responsibility here.

Chairman GLENN. Do you plan to reorganize OMB, particularly to beef up its management functions and capabilities?

Mr. DARMAN. Only in the limited way that I suggested. I am thinking of creating an executive associate director for management, instead of for budget; or doing something to elevate a general responsibility for management in a single individual.

I am thinking of using the special analysis units that are underneath the program associate directors for longer term management analysis. Beyond that, I do not have any clear notions at the moment. I cannot promise that I will not have others with time.

Chairman GLENN. Do you think you can do the job with the number of people there now? You have enormous responsibilities, and I think OMB was up to 600-and-some people at one time. What is it now, 375, 378?

Mr. DARMAN. It is actually a bit more than that, Senator. I do not think we have any choice. OMB has received less than it has asked for from the Congress for every one of the last 8 years.

I do not know if that is a pattern that extends beyond the 8 years. I have only seen the numbers for the last 8 years. So, if we were to ask for more, especially in the current circumstances, I have absolutely no reason to believe we would get more.

Chairman GLENN. We are concerned about your organization and its effectiveness, and hope you can really get hold of all these things that have to be done with the organization that you are going to head. So, any major changes you are going to make over there would be of great interest to us.

We would also hope to have your commitment that, if you are planning major organizational changes, you would let us know and advise us of what you are planning, so we can work together.

Mr. DARMAN. Well, I would be more than happy to. I would consider your committee a likely supporter. The problems that OMB has are not here——

Chairman GLENN. I think you are probably correct.

Mr. DARMAN [continuing]. So much as they are elsewhere in the Congress.

Chairman GLENN. I introduced, and this Committee worked on in the last Congress, legislation to establish a chief financial officer for the Executive Branch of the Government within the Department of the Treasury.

Now, I do not know of any major corporation in this country that does not have a chief financial officer to oversee things and to make sure that the information flow is correct. Yet, in the Federal Government, I just find it very difficult to believe, but the facts are that we have over 400 different accounting systems in use within our agencies.

GAO has identified these, and they are still identifying new ones which do not really have the capability to communicate with each other on the computers, and things like that. We need to have the most accurate financial information available.

Can you comment on our Government's fragmented accounting structure, and what your views are of a chief financial officer, a CFO?

Mr. Darman. I agree with your view that the existing system is highly fragmented. There have been recent efforts to improve it. I am led to understand that they have made some improvement. I would be surprised if the improvement is anywhere near what one would wish.

It is understandable how these things have developed the way they have over time, but they are really not at all what they—at least, when I was last in touch a year-and-a-half ago, they were not what they ought to be. That is for sure.

It is a very big job to get this kind of change accomplished. I do not think that just labeling somebody as chief financial officer would do it. It has to be a good somebody who has got the label, and he has to have a lot of authority behind him in addition to a pretty sophisticated knowledge of what he is doing.

There is someone with such a label in OMB at the moment, as you know. I know the Treasury also has a desire to have the function. What I have suggested is that Secretary Brady and I sit down and work out some sort of joint approach to getting the job done.

I am less concerned about who has the label than I am that we get the right kind of financial systems up and running and capable of doing the sort of analysis that needs to be done on a timely basis.

I would think he and I could work out something that divides the responsibility sensibly between Treasury and OMB. From OMB's perspective, it is extremely important that this be done. It is also important that we have enough continuing control of the process and the way in which information is gathered, so that the kinds of analysis I have been talking about having the Government do more can be done.

Let me back up one step. I remember when David Stockman was OMB Director at the start, and he was having to write his own computer programs on his own little console in his own office, to try to get some of what you would think of as the most basic, rudimentary information in a usable form.

I have been talking about moving to more complicated ways of presenting the budget, and more complicated analyses of operating statements, trust funds, capital budgets, multiple projections using different economic assumptions and other kinds of assumptions.

I do not want to be in a position where OMB cannot be very sure that that information can be generated quickly and reliably. So, that is what accounts for what you might consider a bureaucratic position, thinking that OMB needs to be heavily involved in this, and not wishing to see it over at Treasury.

Chairman GLENN. This is part of our policy, if we have a policy here on the Committee, or it is part of our continuing agenda, to put the "M" back in "OMB," and to help you to do that. We are on it together. I do not mean this in an adversarial role; I mean working together, because we think it is so important.

It would seem to me that you are the person who is going to be in day-in, day-out touch with every single branch of government, far more than Treasury.

Mr. DARMAN. Right.

Chairman GLENN. When we considered this last year, I know I favored at that time putting it more in OMB than I did in Treasury. Now, we ran into all sorts of flack, and we had discussions back and forth.

I still think that OMB, if it is to operate in a management role, which I think it should, would be the spot where we put the CFO and give him authority to straighten out these 400 different accounting systems across Government.

I would ask a different question. How can you rely on the information you are getting from 400 different, dissimilar accounting systems across Government? Do you have any confidence at all in the information you are getting and are going to be acting on?

Mr. DARMAN. Some confidence, but nowhere near as much as you would like to have. That is for sure.

Senator STEVENS. Would you yield, Mr. Chairman?

Chairman GLENN. Surely.

Senator STEVENS. I am glad to finally find out what happened to President Reagan's 1982 budget, if Dr. Stockman was sitting here making up his own program.

Mr. DARMAN [laughing]. Excuse me for laughing.

Senator STEVENS. You remember the old saying——

Chairman GLENN. I would be glad to have you expand on Mr. Stockman, if you like.

Senator STEVENS. "Garbage in, garbage out."

Chairman GLENN. In the regulatory area, you are the agency that has to oversee new regulations as they are proposed and reviewed.

A very basic question is, do you see your role as a coordinator to make certain that one regulation does not duplicate a regulation in some other branch of Government? Or, do you see yourself as defining the intent of regulations, wherever they come from, and no matter how many are already out there, in carrying out what the President's policy is?

One role prevents duplication, but you are not involved that much with substance. The other is, are you going to be involved very directly with substance in carrying out the President's policy?

Mr. DARMAN. I would think it would certainly include the former, and some reasonable portion of the latter. The point at which the latter becomes unreasonable is if you are trying arbitrarily or improperly to substitute alleged OMB technical expertise for what might be superior technical expertise in an agency; or, if you are trying essentially to redefine the underlying statute.

In those cases, I would think it would be improper for OMB to be trying to exercise a more general policy function. I do not think its role should be confined to the mere prevention of duplication and overlap, important though that be.

Chairman GLENN. I asked a moment ago if you could do the job with the number of people you have. Let me give you an example here.

In a recent court decision, it was found that more than half of EPA regulations subject to statutory or judicial deadlines which were submitted to OMB—86 out of 169 regulations, to be exact—were delayed beyond the time allowed under Executive Order 12-291.

The average delay per regulation was 91 days, and total delays amounted to 311 weeks. Delays have been a persistent problem, ever since the OMB regulatory review process was established.

Do you have thoughts on what causes these delays? What can you do to ensure that statutory deadlines are met and regulatory decisions are made on a timely basis under your own definition, with the people you have there right now?

Mr. DARMAN. I am not satisfactorily informed on the subject, although I did get a chance to observe it in the years that I was in Government.

I think, in some cases, the delay is really a mask for policy differences. I think that that is improper; that we ought to be willing to surface the issues squarely for resolution on the merits, and not use a mere delay tactic as the way of attempting to achieve one policy objective, as opposed to another.

So, I have already said to some who are very concerned about this that I want to make sure that the OMB position is developed in a timely manner, and not use delay as a way to try to get OMB's "way."

I have been led to understand, however, that some portion of the delay has been the responsibility of the agencies; that OMB has provided initial comments that have gone back to the agencies, and that the agencies have then, fearing an outcome they might not like, tended to delay for some extended period of time.

So, I would like to ask that agency people be responsive, in the same way that I am going to ask that OMB be responsive; and that, if we do have disputes, we raise them to a higher level for resolution, which means that the President or someone else is going to have to get into the act to resolve disputes.

Chairman GLENN. We talked a little on Thursday about the nuclear weapons production complex. You indicated at that time that you did not consider yourself really qualified at this point to get into the amounts, the exact amounts that would be required, and so on.

We have allowed our plants to deteriorate to the point where we just have very severe environmental contamination present at many of these sites.

It is the type of problem that is not going to go away. It is not going to get any cheaper to take care of. It has built up over 38 years, under the guise of secrecy or the veil of secrecy that surrounded our weapons complex.

We needed the production. We were so concerned about that. What do we do with the stuff that is left over? Well, put it out behind the plant in a pit someplace, and we will deal with it later.

Well, later is now. DOE, after fighting our investigations into this for the better part of—oh, 2½ or 3 years—then turned to and did yeoman's service to us, I think, by their estimates and analyzing what is going to be required.

We have three different reports now, the 2010 Report on what the complex should look like in the year 2010. We have two other reports, one an evaluation of what the total package cost is going to be; and then a second part of that report, Volume 2, that we just released last week, indicates site-by-site-by-site what is going to be necessary to do the clean-up and the modernizing, if it is to still be part of the complex in the year 2010.

GAO ran an independent estimate of this, at our request, and we got all this information together last July. We had hearings, and it all was addressed. The upshot of it was that the estimates were not that far apart. The estimates were $150 billion to $175 billion, over a 20- to 30-year period, to do the job that would have to be done.

Now, let's say it is $180 billion in a 30-year period. That would indicate an average of about $6 billion a year that we are going to have to devote to this, unfortunately.

Now, I know that outgoing Energy Secretary John Herrington sought to get the attention of OMB to this matter. They got in a fuss as to the amount that should be devoted to it. It was finally bucked to the White House for decision, because OMB would not put the figures in that DOE wanted.

The final Reagan budget requested $1.4 billion for spending, and that is the whole environment, safety and health program, to keep the current system operating, and a clean-up figure out of that $1.4 billion of only $300 million for this coming year.

Now, as I indicated the other day, my feeling is that this is about enough to buy the blueprint paper and to get some staff together and that is about it. We are not really starting to clean up at that level of commitment.

That was what OMB fought them on, or shot them down on, over the last couple of months. I would appreciate any comment you could make. When you have something like this that comes up, that is of national importance—and it is a budget buster, but it is something that has to be done; we have hundreds of thousands of people out there right now who are at increased danger and risk from health and safety because of what has happened over the past roughly 38 years.

Now, I know that we cannot just dump everything else and fund everything that we would like to see funded right off the bat; but certainly, sufficient funding to start on this job is considerably more than the $1.4 billion that was asked for in the Reagan budget.

I would appreciate any indication you could give us of, if not an amount, your commitment to what you think should be done. This is not something I am interested in just because we have some sites in Ohio; it is clear across the country.

We have 45 different locations at 17 major facilities in 12 different States. It is something that is not going to go away. It is something that is a continuing hazard. It is something that we have finally gotten national attention focused on.

I have been working on this off and on for 9 years now. Finally, because of the Savannah River problems and the requirement to overhaul our whole capacity, our plutonium and tritium, certainly, we have to do something about it.

A sum of $1.4 billion is not going to do it. I would appreciate any additional comments you could give us as to what kind of a national commitment you think we have to correct these sins of omission of the past 38 years.

Mr. **Darman**. Well, Senator, clearly they have to be corrected. I would think that there would be bipartisan agreement on that.

The question that will be the more difficult one is the rate. Since obviously we cannot do the whole 150, if that is the right number, or 100, or 200—there are numbers all over the place. Whatever the number is, it is a number that is so large that, clearly, it cannot all be done at once. In fact, it would not be possible just logistically to do it all at once, even if we had the money.

So, I suppose that what really requires examination are the priorities for action, the sequence in which we want to get going on things.

Chairman **Glenn**. And prioritizing the biggest dangers, as to danger level.

Mr. **Darman**. Right. That would seem to me at least to be the reasonable way to approach it, for both the security risks and the health risks. I can only repeat what I said before, and what you noted earlier this morning. I am meeting with Admiral Watkins on this this afternoon, if all goes well. Both of us feel—and I am sure you must have talked with him as well—but both of us feel that we have to get on top of this problem in a reasonable way.

Neither of us, or at least I—I cannot speak for him—do not yet feel expert. So, our meeting today is really procedural. What he and I are going to try to do is to work out a cooperative approach for OMB and Energy, to get on top of the analysis and, where it needs to be moved forward more rapidly, move it forward more rapidly, so we are in a position to make our own informed judgment on this.

All I can tell you is that we intend to approach it cooperatively. I did meet with Secretary Herrington on this. I have known him for years. I had a very, very straight briefing from him and some of his people, at least I took it to be a very straight briefing.

So, we will be moving on it quickly. We are behind you. It is a price you pay for the turn-over. It is going to just take us a little while. I am not saying we will catch up, but it is going to take us a while to get into a position where we are even able to make a responsible judgment.

Chairman **Glenn**. Did you participate in any of the OMB meetings during the Reagan Administration on the preparation of the Reagan budget that was just submitted to us? Did you participate in meetings in which these different things were brought up?

Mr. **Darman**. No. No, I did not.

Chairman **Glenn**. All right. Obviously, we are very concerned about this. I am particularly concerned, because I have been on it a long time. I think now there is enough national concern about this, that it is something we really have to move on.

It is going to be a long-term plan. It is not something where we can turn the money spiggot on or off. We would rather have a reasonable amount and know that it is consistent, so we can really get on with the program of taking care of the most dire safety and health needs early on.

Admiral Watkins I think is ideally situated to take this particular thing on, because he has a nuclear training background in the Navy. He was captain of ships that were nuclear-powered and so on, so he is very familiar with the problems.

Mr. Darman. I can assure you, I am thankful that at least one of us is.

Chairman Glenn. Yes. Along the nuclear line still, when Congress set up NRC it granted NRC autonomous roles in issuing export licenses for nuclear-rated commodities and in evaluating foreign nuclear agreements for cooperation.

Now, if NRC is made into an executive agency, which has been proposed, what specific steps will OMB take to protect the autonomy of the new agency in performing these important functions, the ones of the commodities and the foreign nuclear agreements for cooperation?

Mr. Darman. That is an issue I am not familiar with, Senator.

Chairman Glenn. All right. We hope you would be able to review that one, and give us any thoughts you may have on that later on.

Mr. Darman. I know of no reason to disagree with what seems to be the common sense intention of your question.

Chairman Glenn. One of the items you might wish to include in your discussion with Admiral Watkins this afternoon is—I think there was a newspaper article on it that came out over the weekend in the New York Times—about a cheaper way, that would cost about one-third as much, if we went to a linear accelerator, to produce tritium, which is the most critical item.

Now, I do not expect you to use all your learned expertise on linear accelerators this morning here; but you might want to bring that up and see if there is not some money that can be saved in that direction. It was an interesting article in the New York Times over the weekend.

Mr. Darman. Right. That is exactly the kind of issue that I alluded to on Thursday, about tritium production, that I felt seemed to be important and relevant, but that I did not know much about.

Chairman Glenn. On space, we have not brought that up yet. I noted with interest that you have written about the importance of our commitment to space exploration. There are a number of ambitious proposals that are going to require your immediate attention, such as the increasing outlays for the space station, and state-of-the-art heavy launch vehicles, interplanetary missions, among others.

I know that everything is likely to come under the possible budget axe from time to time, but what would be your general philosophy as far as undertaking to ensure that the United States remains a leader in space exploration?

Mr. **Darman**. I believe we should be a leader in space exploration. I think it is highly regrettable that the Soviets have, in some areas, surpassed us. I think that the Japanese understand the commercial applications of the micro-gravity environment, and are already embarked on interesting and probably ultimately quite exciting plans for developing that environment for commercial application.

I think it is a new frontier, still. As with any new frontier, it is bound to have enormous promise and return beyond what the early developers can imagine.

So, there is a leap of faith involved. You cannot demonstrate that there is a favorable return on this investment. You cannot demonstrate it conclusively; but certainly, history would suggest that investment in any of these exciting human frontiers has ultimately accrued to the benefit of future generations, way beyond what was imagined by some of the pioneers. Obviously, this is an area in which you are one of the pioneers.

So, I think it is important that we continue to aspire or return to the aspiration of being number one in space. I would hope that we could find a way to fit this one in amongst all the competing claims.

As you point out, though, there are so many of these legitimate competing claims, it is tough. My own feeling is that the future is badly under-represented in the budgeting process. So, I feel a little less reluctant than I have in some other areas to suggest that this is one that a few people ought to stand up for.

It is in the nature of pioneering technologies, or new frontiers anywhere, that they do not yet have many current voters associated with them. Old industries tend to have many more voters associated with them than industries yet to arise. It is true of geographic regions yet to arise. It is true of space, which is a combination of the two.

The political system is biased against these areas of future development. So, I might try to provide a little bit of corrective influence, insofar as I have a role.

All of that said, I think that space will be squeezed; not necessarily by the Bush Administration, but it seems to me clear that the Congressional budgeting process is going to put quite a strain on investment in space. I find that regrettable, but I think it is a matter of reality.

Chairman **Glenn**. What, in your view, would be sufficient funding for those functions?

Mr. **Darman**. I do not have a responsible answer for that. This is one area in which, if it were mine to do, it would be a lot more than it is; but it is not mine to do.

Chairman **Glenn**. Well, I agree completely, obviously, with what you said. I get asked all of the time what to me is one of the most ridiculous questions, when you are dealing with research. That is, "Yes, but what are we going to get out of it? What is the value? What is the cost-effectiveness of it?" Who knows? That is the purpose you do it; that is the reason for all research. I know I do not have to sell you on that concept.

It is like asking Ben Franklin why he is curious about electricity. Or the old story of Disraeli and Farraday. Disraeli is visiting the laboratory and they are having sparks jump from one bottle to another in the first little primitive electrical generators. He asks, "But of what use is it?" Farraday is supposed to have replied, "What good is a baby?" That is about it.

We get new information. That comes together with other new information, other research, and pretty soon we are able to make a quantum leap forward, whether it is metallurgy, or fabrics, or transportation, of medicines, pharmaceuticals, or whatever.

That is the reason we do it: Because it is unknown, because we are trying to push back those frontiers of the unknown. That is what all of our progress has been about.

The NASA budget fits right in that same mold. I would support the same kind of thinking with regard to NIH and the other places that are doing very effective scientific research work for us, also.

Do you have any opinions on the commercialization of space? The Reagan Administration sought to encourage greater involvement by private industry in the space program. That has led us even to privatization of LANDSAT and ideas to develop a commercially developed space facility, CDSF as it is called.

What are your thoughts on the issue of space commercialization?

Mr. DARMAN. As I have already suggested, I strongly favor our moving forward towards space commercialization more rapidly; by which I mean not merely the commercialization of the ability to get into space, but the commercialization of what I take to be the more exciting area of potential, and that the is actual use of the micro-gravity environment, commercial activities in space beyond telecommunications and reconnaissance activities that are already in space.

I think it is extremely important. As I said earlier, it is partly a matter of faith. It cannot yet be demonstrated adequately that you can get a favorable return on the investment required, but I think all of the history of human experience should suggest that we could.

On the specific question of how best to move forward, you referred to the CDSF. I have a prior client relationship with two firms that are associated with that project, so I am going to recuse myself from involvement with any contract matter related to the CDSF.

That said, I think, as a general proposition, the commercialization of space, and finding economical ways to get us into the microgravity environment, and learning and moving forward, and keeping up with the Soviets and the Japanese, have got to be a high national priority.

Chairman GLENN. I concur on that. My own views on what the Government should do, as opposed to commercialization, it seems to me that the Government does the high risk. The basic research is high risk, getting a space station out there for instance.

I think, when we start learning enough, and there are new processes involved, that in time the commercialization will come along, just naturally, as people get more interested in it. There will be private vehicles put up.

I have thought perhaps we were pushing too far, too fast, in trying to move some of those functions out of the Government realm and into private industry where a profit-and-loss bottom line is going to be the determining factor on whether we have a space program or not. I do not want to see us move in that direction.

I think the Government still has the role of being the provider of the first order of research. The rest of this will automatically follow, as we get on down the road.

Mr. **Darman**. You referred to NIH. NIH is a classic case in point, where there are an awful lot of people who would have interest in using the micro-gravity environment more to explore the potential for new drugs and many other things potentially related to improved health here on earth, for which there will ultimately be large commercial markets.

It may well be that, in the early stage, a heavy dose of the research should be publicly funded. Interested commercial companies would be foolish not to attend to the product of that research and try to commercialize it.

I agree with you. I think that they are attending, and they will attend. I just hope that it is not with America second. I think the Japanese are attending more now—at least, it is my sense that they are attending more now—than we are. We do not know what the Soviets are really doing. They are just spending an awful lot of time out there.

Chairman **Glenn**. Yes. Shifting gears—and I am going to try and wind this down as soon as possible. You have been very patient with us, and we will try and wind this down soon.

I would be remiss if I did not mention one other area that the Committee has been concerned about, and on which we have had four hearings over the past year.

It is related to the drug problem. We passed the drug bill, of course, last year. It has money connected with it. I felt that we were remiss in not, along with that, addressing a different drug problem that makes the hard drug problem, illegal narcotics, look almost small by comparison.

I am not downplaying my interest in fighting the use of hard drugs as President Bush indicated in his speech the other day, last Friday. He left no doubt about where he stands in that regard.

I also think, though, that where we had some 4,700 deaths of OD in drugs last year, and out on the highways, at the same time in the legal drug of alcohol we had deaths on the order of 22,000 to 25,000 alcohol-related deaths out on the highway. We estimate we have 100,000, at least, minimum, deaths per year from alcoholism.

We estimate that we have 10 million alcoholics in the country, and 8 million problem drinkers. Those are the experts who have sat at the table there and given us these estimates.

The problem with the legal drug of alcohol is just enormous. It just almost dwarfs in my mind the problem with hard drugs. We have had several hearings in this regard.

Now, you will be in a particularly good spot to see the effect of some of these things across the whole scope of Government. We have a problem within Government with alcoholism, just like private industry does.

Congress has passed the Federal Alcohol Administration Act. We understand that OMB may propose legislation to revise the act, to essentially weaken the enforcement provisions.

Have you had a chance to look into that yet?

Mr. **Darman**. What act is that? I am sorry.

Chairman **Glenn**. The Federal Alcohol Administration Act.

Mr. **Darman**. No, I did not know that that was happening.

Chairman **Glenn**. Yes. We have heard that OMB is planning to propose legislation to weaken it. Just for instance, as I understand it, before any alcoholic beverage of United States or foreign production can be sold in the United States, the product label, ingredients, production processes, have to be approved under that Act.

There is some indication that perhaps these rules, and the enforcement of this, were going to be changed as to whether it was a foreign producer, whether it was a domestic producer. You may want to look into that one, if you are not familiar with it.

Mr. **Darman**. I do not know anything about that particular act. I will look into it.

On the more general matter, I agree with you; it is a terrible problem.

Chairman **Glenn**. Yes.

Mr. **Darman**. I do not know exactly what to suggest doing about it. I, myself, recall very well—and probably each of us has this kind of experience—when I was a 15-year-old, and other friends 16 years old could drive. There was one night when a bunch of us were trying beer. We had one pickup truck and a car.

There were about 10 of us; 5 of my good friends got in the pickup truck, and I got in the car. We went careening through the town of Wellesley, Massachusetts, where I was growing up. The guys in the pickup truck hit the pillar at Wellesley College. When I got there, one of my best friends' head was literally broken apart on the ground, and he was dead.

We all have experiences like that. I have got a 12-year-old who is going to get his license in a few years. I sure as heck do not want to see a world in which he drives around and is potentially a victim of that same thing.

Yet, notwithstanding the fact that so many parents feel that way, somehow or other our society has not expressed its value preference here in a way that gets at the problem.

It is a terrible problem, and we are not coming close to doing enough about it.

Chairman **Glenn**. No. I am not belittling the hard drug problem: It is devastating, and people experimenting in that area get hooked so much faster than they do on alcohol. But alcohol is almost without exception the drug of entry for young people. They try it first, and move on to others.

There are a few that come back in the other direction. Maybe the peer pressure is that they use marijuana or something first, and then come back to alcohol. I think, from the testimony we have had here, it is the opposite direction.

Do you have any intention to reprogram the budget of BATF, the Bureau of Alcohol, Tobacco, and Firearms, in this next year?

Mr. **Darman**. In what way? I do not know what the issue is. Reprogram it for what purpose?

Chairman **Glenn**. Well, we had understood that there might be some trying to reprogram some of their funds in the 1989 budget when President Bush comes in with his changes to the budget.

Mr. DARMAN. No recommendation of that has come to me yet. I am unfamiliar with that issue. I have had an awful lot of recommendations, but that one has not come yet.

Chairman GLENN. All right. Congress has passed legislation that will require the inclusion of health messages on the labels of alcoholic beverage products distributed in the country. It is also very likely that there will be legislative initiatives in this and succeeding Congresses to expand the scope of BATF's alcohol abuse prevention activities beyond health warning labels.

Do you have any feelings about what direction we should go in there, in implementing this warning label provision of the act that we passed in 1988?

Mr. DARMAN. I have very strong personal feelings, but they tend to run against the views of the majority. I do not know what the Bush Administration will do.

If it were left to me, I might be inclined to recreate the old temperance provisions; but it is not left to me. We have a society that enjoys alcohol, and we have an industry that enjoys producing it. So, my own personal preferences are really not worth much in this area.

Chairman GLENN. How about alcohol taxes or user fees? [Laughter.]

Mr. DARMAN. Right. Well, I got a very nice duck, literally, from a Senator from a tobacco state, and I got congratulations from another Senator from a wine-producing state, since they interpreted my prior testimony as classifying alcohol and tobacco tax increases as "ducks."

So, I have already committed the sin of calling them "ducks," because they really are ducks, no matter what I might like to think.

Chairman GLENN. Well, if we raised alcohol taxes so that people would pay more for the use of the product, and for the health consequences of it—it has been our understanding that this Administration is opposed to any increase like that, as I understand it. Is that correct?

Mr. DARMAN. Yes, that is correct.

Chairman GLENN. The BATF has felt that they need greater authority over alcohol policy matters than they have had under current law. Have you looked into that? What would be your policy on that?

Mr. DARMAN. No, I have not looked into it. When I was at the Treasury Department, and they reported to me, they did not express that view. I can imagine why they might not.

Chairman GLENN. Let me say this, too, before we wind down here. Senator Roth indicated last Thursday that he could not be here this morning. He had a previous commitment. When I scheduled the hearing this morning, he was unable to change that, and I appreciate that. I just wanted to make sure that everyone was aware that that is the reason he is not here this morning.

Senator Pryor also had other commitments this morning, but indicated that he would like these questions asked. I will read them off on behalf of Senator Pryor.

The former President's budget calls for a 3.6 percent pay raise for DOD, both uniformed and civilian employees, with funds to be appropriated to cover the cost of the increase.

Employees in other agencies will get a 2 percent raise, with the agencies having to absorb 75 percent of the cost. The first question is: Do you support this unequal treatment in both the percent and absorption?

Mr. **DARMAN**. As with all of the specific Bush budget issues, we have not yet decided on them. I do not believe that it is necessary that the two be treated identically. In other words, it is not inconceivable to me that we would come out in favor of the 3.6 percent versus the 2 percent for military versus civilian.

They are different labor markets, different functions that are being performed. In one case, we are obviously trying to keep a volunteer Army going. In the other case, it is more a question not of attracting people with the 2 percent, so much as it is an issue of equity; keeping people who are, in large instance, likely to stay.

Let's put it this way: their stay-or-leave decision is not a function of whether it is 2 or 3.6 percent. It is more an issue of equity and of assuring their compensation is adjusted to some reasonable degree for inflation.

Chairman **GLENN**. Senator Pryor's second question is: We have been asking agencies to absorb pay raises for the last several years. What is your position on continued absorption of pay raises? Are we creating a problem by cutting bigger but fewer slices from a pie of constant size?

Mr. **DARMAN**. I think we talked about this a little bit before. I think that there will have to be some absorption. Whether it can be 100 percent or not is a matter that I am making sure we look into.

I am not of the view that we have hit the bottom in terms of the size of Federal employment. I mean, I do not start with the view that we should assume we cannot cut more people. I do not hold that view.

Chairman **GLENN**. I think Federal employment has gone up, generally, over the past 8 years, in spite of all the promises to do just the opposite of that.

Senator Pryor's last question is: In addition to the lower-than-anticipated pay raises, the former President's budget proposes that employees pay more of the cost of their health insurance, and proposes cuts in retirement benefits in several ways.

Will cuts in these areas, $6 billion to $8 billion, help us build a better civil service?

Mr. **DARMAN**. Well, I think, in the case of the health insurance point, that is an administrative change in the way that the 60-percent Federal premium subsidy is calculated. They changed the base on which it is calculated from the five most expensive plans to all of the plans, which strikes me as a reasonable thing to have done. It should have been done from the start.

There are a couple of other changes. I suppose, to get to as high a number as he has, he must be including freezing COLAs. That, I assume, people would accept, if it is done on an equitable basis as part of a more general freeze that people find acceptable.

I think that people understand the idea of a freeze; but what they want is that it be applied equitably. So, it seems to me that it has to be looked at in the context of the overall program. If people like the overall program, they are much more willing, I think, to contribute their share than if they think that the overall program is poorly balanced.

The only other element of that that I can think of that he would have in mind is the change in the way that the lump sum retirement benefit is treated for retiring Federal employees. There again, the existing treatment I think is only a few years old.

The change that is proposed strikes me as not unreasonable. It just converts it into an equivalent value, but done as an annuity, which is the way most private plans are structured.

So, I think if he were here, he would not be pleased with my answer.

Chairman GLENN. Well, he might or might not. I do not know. I cannot speak for him in that regard.

Mr. DARMAN. Well, what I am trying to say is that I think that the direction of my answer is not consistent with what he would wish.

Chairman GLENN. One other question: President-elect Bush, and now President Bush, in his first debate with Michael Dukakis during the election, pledged his support for full funding of the McKinney Homeless Assistance Act.

The final Reagan budget proposed a funding level of $259 million for the McKinney homeless programs in 1990, which is far less than half of the $676 million authorized by Congress.

Can we in Congress expect that any budget plan submitted by President Bush will propose full funding for the McKinney Act programs?

Mr. DARMAN. I think that, as with virtually all of his campaign promises, that is one that the President-elect would like to be able to fulfill. I cannot yet guarantee that we can squeeze it all in; but I know for a certainty that it is high on his list.

Chairman GLENN. Do any of the staff members have anything representing your people, that I can ask in particular?

[No response.]

Chairman GLENN. All right, good. Unless you have some closing statement, Mr. Darman, which I doubt that you have at this point, after all this time, again let me say that we appreciate your cooperation in the preparation of the hearings and your cooperation in the scheduling.

I know this was not without some difficulty that you were able to be with us today. We appreciate it. We have covered a lot of territory here, and we look forward to working with you in the years ahead.

As far as I know, you will be approved this afternoon. I would like to have a Committee mark-up on your nomination at 1:30, in about 20 minutes from now.

We will vote you out today, hopefully, to get you confirmed on Wednesday. I know of nothing that would stand in the way of that. I would be glad to have any comment that you wish to make.

Mr. DARMAN. Senator, I do not have a substantive comment, but I would like to thank you very much, not only for your taking action to get my nomination voted out, if possible today, and then by the Congress on Wednesday; but also, if I could say, you are correct that it is not the easiest thing in the world to be on this side of the table with the procedures that your committee follows.

I would repeat something that I said at the outset. That is that I have great respect for the approach that you have taken. I think it should be generalized, awkward though it be and difficult though it be for nominees.

I take the Senate's role to be extremely important. We have had some problems in some jobs in recent years that have led to a public loss of confidence in Government, generally. I think you are only doing the responsible thing, and I commend you for it.

I just repeat that, although it is a little bit difficult for the person on this side of the table, I think it is in the general interest. I would urge you to continue it.

I only hope that I do not have to go through it again too soon. [Laughter.]

Thank you very much, sir. I have enjoyed it. I look forward to working with you and members of the Committee and their staff.

Chairman GLENN. Thank you very much. I appreciate that very much.

The Committee will stand in temporary recess for about 20 minutes, until 1:30. We hope we can get our required eight people here to vote. Thank you. We will get it out today.

Mr. DARMAN. Thank you, sir.

[Whereupon, at 1:13 p.m., the Committee was adjourned.]

APPENDIX

JOHN WARNER
VIRGINIA

COMMITTEES
ARMED SERVICES
SELECT COMMITTEE ON INTELLIGENCE
ENVIRONMENT AND PUBLIC WORKS
RULES AND ADMINISTRATION

United States Senate

WASHINGTON OFFICE
421 RUSSELL SENATE OFFICE BUILDING
WASHINGTON, DC 20510
(202) 224-2023

NORFOLK OFFICE
805 FEDERAL BUILDING
200 GRANBY MALL
NORFOLK, VA 23510
(804) 441-3079

RICHMOND OFFICE
PARCEL POST BUILDING
1100 EAST MAIN STREET
RICHMOND, VA 23219
(804) 771-2579

ABINGDON OFFICE
135 FEDERAL BUILDING
180 WEST MAIN STREET
ABINGDON, VA 24210
(703) 628-8158

19 JANUARY 1989

STATEMENT OF THE HONORABLE
JOHN WARNER, U.S.S.
INTRODUCING
RICHARD G. DARMAN
TO BE DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET
BEFORE THE
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

MR. CHAIRMAN, IT IS A GREAT PLEASURE TO BE HERE TODAY TO INTRODUCE TO YOUR COMMITTEE MR. RICHARD DARMAN, PRESIDENT-ELECT BUSH'S NOMINEE TO BE THE DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET. I REALIZE FULL-WELL THAT DICK DARMAN HARDLY NEEDS AN INTRODUCTION TO THE FINE MEMBERS OF THIS COMMITTEE.

HOWEVER, AS THE SENIOR SENATOR FROM THE COMMONWEALTH OF VIRGINIA -- FOR THE PAST 16 YEARS THE STATE OF RESIDENCE FOR DICK, HIS WIFE KATHLEEN AND THEIR TWO SONS -- I HAVE THE HONOR OF PRESENTING THIS FINE NOMINEE TO YOU.

INDEED, IT IS A PLEASURE I ENJOYED FOUR SHORT YEARS AGO WHEN DICK WAS NOMINATED TO BE DEPUTY SECRETARY OF THE TREASURY AND I HAD THE PRIVILEGE OF INTRODUCING HIM TO THE SENATE FINANCE COMMITTEE.

THE MOST FORMIDABLE TASK FACING THE INCOMING ADMINISTRATION WILL BE THE REDUCTION AND EVENTUAL ELIMINATION OF THE FEDERAL GOVERNMENT'S FISCAL DEFICIT.

IN THIS EFFORT, DICK DARMAN WILL BE THE POINT MAN FOR THE ADMINISTRATION -- AND CONSIDERING WHAT'S ON THE TABLE, I MIGHT ADD IT'S NOT AN ALTOGETHER ENVIABLE POSITION IN WHICH TO BE.

DICK DARMAN COMES TO THIS POSITION WITH IMPRESSIVE EXPERIENCE AND BACKGROUND, AND A DEDICATION TO PUBLIC SERVICE THAT IS SECOND TO NONE.

AS I MENTION, FROM 1985 TO 1987 MR. DARMAN SERVED AS DEPUTY SECRETARY OF THE U.S. TREASURY.

HE WAS A KEY NEGOTIATOR OF THE COMPREHENSIVE TAX REFORM LEGISLATION ENACTED IN 1986, AND OF THE INTERNATIONAL ECONOMIC POLICY AGREEMENT KNOWN AS "PLAZA I" AND RELATED AGREEMENTS AMONG THE MAJOR WESTERN INDUSTRIAL COUNTRIES.

PRIOR TO ASSUMING HIS POSITION AS DEPUTY SECRETARY OF TREASURY, MR. DARMAN SERVED IN THE REAGAN WHITE HOUSE FROM JANUARY 1981 TO JANUARY 1985 AS ASSISTANT TO THE PRESIDENT, AND DEPUTY TO THE CHIEF OF STAFF.

HE HELPED NEGOTIATE THE BUDGET AND TAX ACTS OF 1981, THE TAX REFORM ACT OF 1982, AND THE SOCIAL SECURITY COMPROMISE OF 1983.

HE WAS A MEMBER OF THE U.S. DELEGATION TO THE SUMMIT MEETINGS OF INDUSTRIALIZED COUNTRIES FROM 1981 THROUGH 1986.

MR. DARMAN SERVED AS ASSISTANT SECRETARY OF COMMERCE FOR POLICY UNDER PRESIDENT FORD.

HE HAS HELD SENIOR POLICY POSITIONS IN SIX U.S. CABINET DEPARTMENTS: HEALTH EDUCATION AND WELFARE, DEFENSE, JUSTICE, COMMERCE, STATE, AND TREASURY.

IN THE PRIVATE SECTOR, MR. DARMAN HAS BEEN A FELLOW OF THE WOODROW WILSON INTERNATIONAL CENTER FOR SCHOLARS, A PRINCIPAL AND DIRECTOR OF ICF INCORPORATED, A MEMBER OF THE FACULTY OF HARVARD'S GRADUATE SCHOOL OF GOVERNMENT, A DIRECTOR OF AMERICAN CAPITAL AND RESEARCH CORPORATION, A TRUSTEE OF THE BROOKINGS INSTITUTION, AND A CONTRIBUTING EDITOR OF U.S. NEWS AND WORLD REPORT.

MR. DARMAN HAS NUMEROUS ACCOMPLISHMENTS TO HIS CREDIT PRIOR TO HIS ENTERING PUBLIC SERVICE OF WHICH HE IS JUSTIFIABLY PROUD. INDEED, MR. DARMAN WAS AN HONORS GRADUATE OF BOTH HARVARD COLLEGE AND HARVARD BUSINESS SCHOOL.

AS I MENTIONED EARLIER, THE TASK AHEAD OF HIM IS A FORMIDABLE ONE. THE AGENCY HE WILL BE HEADING UP PLAYS A KEY ROLE IN THE POLICY FORMULATING PROCESS OF THE FEDERAL GOVERNMENT.

THE OFFICE OF MANAGEMENT AND BUDGET (OMB) HAS AN IMPRESSIVE HISTORY.

ESTABLISHED IN 1921 AS THE BUREAU OF THE BUDGET, THE AGENCY, OVER THE YEARS, ACQUIRED OVERSIGHT RESPONSIBILITIES ON BUDGETING, THE PRESIDENT'S LEGISLATIVE PROGRAM, AND THE MANAGEMENT AND ORGANIZATION OF THE EXECUTIVE BRANCH.

MORE RECENTLY, DURING THE REAGAN ADMINISTRATION, OMB HAS ADDED FURTHER TO ITS PORTFOLIO.

IT HAS PLAYED AN INCREASINGLY IMPORTANT ROLE IN THE FEDERAL REGULATORY PROCESS TO ENSURE THAT FEDERALLY-REQUIRED PAPERWORK IS KEPT TO A MINIMUM.

CONGRESS ALSO EMPOWERED RESPONSIBILITY IN OMB FOR THE GRAMM-RUDMAN-HOLLINGS DEFICIT REDUCTION PROCESS, REQUIRING CONTINUOUSLY UPDATED DEFICIT PROJECTIONS, AS WELL AS IMPLEMENTATION OF THE SEQUESTRATION PROCESS, SHOULD CONGRESS NOT SUCCEED IN REDUCING THE DEFICIT TO THE PRESCRIBED ANNUAL TARGET.

THE NATION IS FORTUNATE TO HAVE A MAN OF DICK DARMAN'S EXPERIENCE, FOR WE WILL AVOID ANY SETTLING-IN PERIOD.

DICK DARMAN WILL NECESSARILY "HIT THE GROUND RUNNING" AS HE UNDERTAKES TO SUBMIT PRESIDENT BUSH'S BUDGET TO CONGRESS IN FEBRUARY, IN ORDER FOR CONGRESS AND THE ADMINISTRATION TO CRAFT A COMPREHENSIVE BUDGET RESOLUTION TO MEET THE $100 BILLION GRAMM-RUDMAN-HOLLINGS DEFICIT TARGET.

IN THAT VEIN, I WOULD BE REMISS IF I DID NOT MENTION SEVERAL ITEMS OF INTEREST TO THIS COMMITTEE.

MR. CHAIRMAN, WHILE A CONFIRMATION HEARING GIVES THE SENATE AN OPPORTUNITY TO BECOME FAMILIAR WITH A NOMINEE'S QUALIFICATIONS, IT ALSO SERVES AS A MEANS OF MAKING OUR PRIORITIES KNOWN TO THE PROSPECTIVE APPOINTEE. I WOULD, THEREFORE, LIKE TO TAKE JUST A FEW MOMENTS TO COMMENT ON WHAT I BELIEVE WILL BE SOME OF THE MAJOR ISSUES FACING MR. DARMAN IN THE AREA OF GOVERNMENTAL AFFAIRS.

IN THE LAST TWO YEARS, IN THE FACE OF THE GRAMM-RUDMAN-HOLLINGS ACT, CONGRESS HAS SUCCEEDED IN PROVIDING EQUAL INFLATION PROTECTION FOR ALL GOVERNMENT RETIREES -- FEDERAL, MILITARY AND SOCIAL SECURITY. IT HAS TAKEN MOST OF THE LAST DECADE TO GET THE COLA'S STRAIGHT. NOW, ALL RETIREES GET THE SAME INCREASE ON JANUARY 1 OF EACH YEAR. THIS HAS BROUGHT HARMONY WHERE THERE WAS FORMERLY DISCORD. WE WANT TO SEE THIS POLICY CONTINUED.

ON FEDERAL RETIREE HEALTH CARE -- IT MAKES NO SENSE FOR FEDERAL RETIREES ELIGIBLE FOR MEDICARE TO PAY THE SAME FEDERAL HEALTH INSURANCE PREMIUMS REQUIRED OF ACTIVE WORKERS. CONGRESS ADDRESSED THIS IN THE MEDICARE CATASTROPHIC HEALTH INSURANCE BILL BY PROHIBITING DUPLICATE COVERAGE. NOW A CONCERTED EFFORT MUST BE MADE TO REFORM FEDERAL RETIREE HEALTH INSURANCE SO THAT IT WILL BECOME A TRUE SUPPLEMENTAL SYSTEM TO MEDICARE.

AND FEDERAL POLICY ON THE LUMP SUM BENEFIT FOR FEDERAL RETIREES SHOULD BE SUMMED UP THUSLY: IT SHOULD BE LEFT ALONE BECAUSE IT IS THEIR MONEY ON WHICH THEY HAVE ALREADY PAID TAXES, AND THEY SHOULD CONTINUE TO HAVE THE RIGHT TO RECOVER IT. IN ITS WISDOM AND OVER MY OBJECTIONS, THE CONGRESS ABOLISHED THE THREE YEAR RECOVERY RULE FOR FEDERAL PENSION CONTRIBUTIONS. THE LUMP SUM BENEFIT WAS APPROVED TO HELP COMPENSATE FOR THIS GRAVE LOSS. REPEAL WOULD BE AN INCREDIBLE BREAKING OF FAITH WITH THOSE WHO HAVE SPENT THEIR LIVES IN FEDERAL SERVICE.

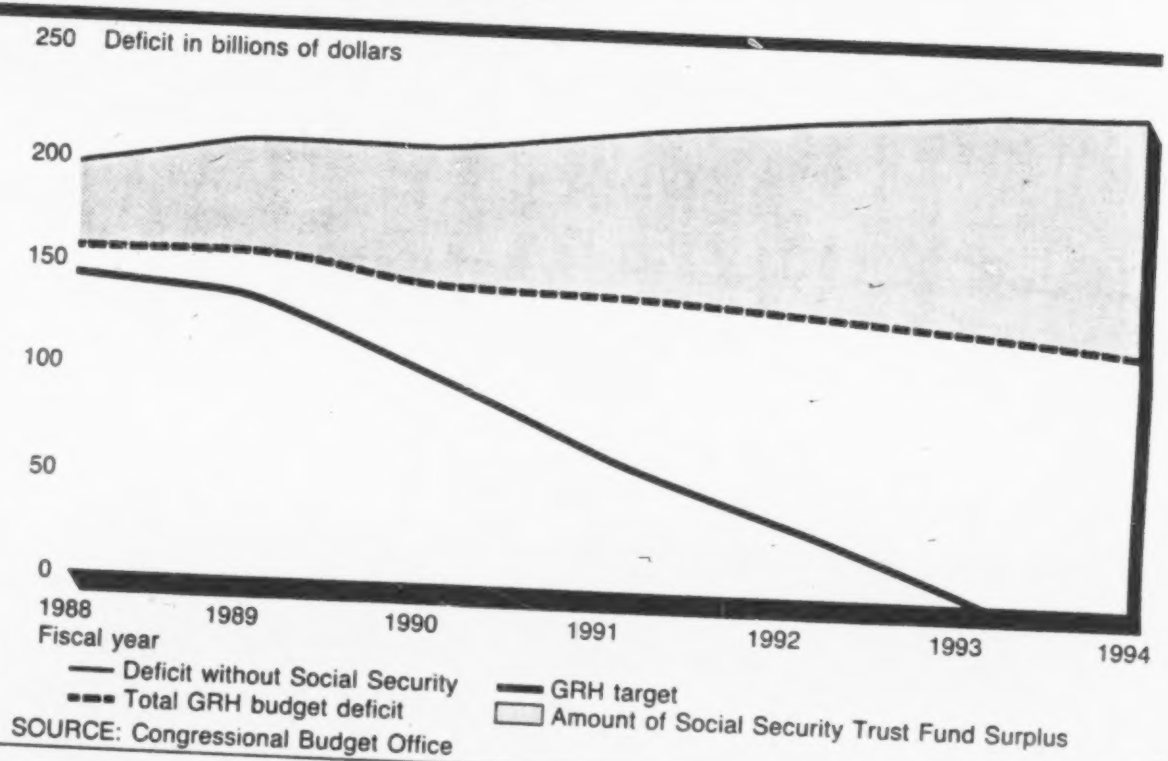
IF MR. DARMAN WILL TAKE THESE POINTS WITH HIM AS HE UNDERTAKES THE ENORMOUS CHALLENGE OF THE JOB GIVEN HIM BY THE PRESIDENT-ELECT, HE CAN BEGIN HIS WORK WITH SUPPORT FROM THE FEDERAL COMMUNITY RATHER THAN HOSTILITY. IT IS MY STRONG RECOMMENDATION THAT HE DO SO.

MR. CHAIRMAN, THE FEDERAL BUDGET REPRESENTS OUR PRIORITIES AND GOALS AS A GOVERNMENT AND AS A SOCIETY. THERE IS NO DOUBT THAT THE BUSH ADMINISTRATION FACES SOME VERY TOUGH BUDGET CHOICES IN THE MONTHS AND YEARS AHEAD. PRESIDENT-ELECT BUSH NEEDS EXPERIENCED AND DEDICATED PEOPLE IN KEY POSITIONS TO LEAD OUR NATION THROUGH THE CHALLENGES AHEAD. DICK DARMAN IS AN OUTSTANDING EXAMPLE OF JUST SUCH A PERSON, AND I HOPE THE COMMITTEE WILL DO ALL IT CAN TO SPEED HIS CONFIRMATION THROUGH THE SENATE.

GAO Masking the Federal Deficits With Trust Funds

Billions of dollars	Actual			Estimates	
	FY 1986	FY 1987	FY 1988	FY 1989	FY 1990
Revenues	769	854	909	980	1,064
Outlays	990	1,005	1,064	1,127	1,200
Total deficit	-221	- 150	- 155	- 148	- 136
Federal Funds Deficit	**-283**	**- 223**	**- 253**	**- 264**	**- 263**
Trust fund surpluses: Social Security	17	20	39	52	63
Other trust funds	45	53	58	64	64
Subtotal, TF surpluses	62	73	97	116	127
Total deficit	-221	- 150	- 155	- 148	- 136

GAO Masking the Federal Deficit With Social Security Trust Funds



SOURCE: Congressional Budget Office

2

GAO Unfunded Costs Facing Government.

Unavoidable costs	
	(Billions)
S&L bailout	$50-100
Nuclear weapons cleanup/modernization	100-150
DOD waste cleanup	10-15
Computer/telecommunications systems update	50-100
DOD weapon systems cost overruns	?
DOD bow wave	?
Unmet needs	
Repair bridges & highways (federal & state)	
Public housing repair	
Retirees' health care	
Prison construction	
Deferred park maintenance	

3

GAO Restructured Federal Budget for Fiscal Year 1987

Billions of dollars

	Activities			
Components	**General**	**Trusts**	**Enterprises**	**Total**
Operating revenues	$573	$326	$59	**$958**
Operating expenses (net)	736	258	60	**1,054**
Operating surplus or deficit	**$ – 163**	**$68**	**$ – 1**	**$ – 96**
Net capital financing requirements	– 58	4	0	**– 54**
Unified total financing requirements	**$ – 221**	**$72**	**$ – 1**	**$ – 150**

4

Richard G. Darman/December 1988

BIOGRAPHICAL AND FINANCIAL INFORMATION REQUESTED OF NOMINEES

A. BIOGRAPHICAL INFORMATION

1. **Name:** (Include any former names used.) RICHARD GORDON DARMAN
2. **Position to which nominated:** Director, Office of Management and Budget.
3. **Date of nomination:** January 20, 1989 (Intention announced Nov. 22, 1988).
4. **Address:** (List current place of residence and office addresses.) Home: 1137 Crest Lane, McLean, Virginia 22101; Office: Shearson Lehman Hutton, Suite 1100, 1627 I St.,N.W., Washington,D.C. 20006.
5. **Date and place of birth:** May 10, 1943 Charlotte, North Carolina, U.S.A.
6. **Marital status:** (Include maiden name of wife or husband's name.) Married: Kathleen EMMET -- Since September 1, 1967.
7. **Names and ages of children:** William Temple Emmet Darman (born: August 11, 1976); Jonathan Warren Emmet Darman (born: February 6, 1981).
8. **Education:** List secondary and higher education institutions, dates attended, degree received and date degree granted. The Rivers School, 1956-60: Diploma, high honors, 1960. Harvard College, 1960-64: B.A., cum laude, 1964; Harvard Business School, 1965-67: M.B.A., 1967.
9. **Employment record:** List all jobs held since college, including the title or description of job, name of employer, location of work, and dates of employment. See attached response to question A-9.
10. **Government experience:** List any advisory, consultative, honorary or other part-time service or positions with Federal, State, or local governments, other than those listed above. See service in six (6) Cabinet Departments and White House as noted in response to question A-9.
11. **Business relationships:** List all positions held as an officer, director, trustee, partner, proprietor, agent, representative, or consultant of any corporation, company, firm, partnership, or other business enterprise, educational or other institution. All such relationships have been severed except: partner Emmet Stable (half owner of avocational interest in horses).
12. **Memberships:** List all memberships and offices held in professional, fraternal, scholarly, civic, business, charitable and other organizations. See attached response to question A-12.
13. **Political affiliations and activities:**
    (a) List all offices with a political party which you have held or any public office for which you have been a candidate. NONE.
    (b) List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years. None other than part-time Volunteer for '88 Bush campaign.
    (c) Itemize all political contributions to any individual, campaign organization, political party, political action committee, or similar entity of $50 or more for the past 10 years. NONE.
14. **Honors and awards:** List all scholarships, fellowships, honorary degrees, honorary society memberships, military medals and any other special recognitions for outstanding service or achievements. See attached response to question A-14.
15. **Published writings:** List the titles, publishers, and dates of books, articles, reports, or other published materials which you have written. See attached response to question A-15.
16. **Speeches:** Provide the Committee with two copies of any formal speeches you have delivered during the last 5 years which you have copies of and are on topics relevant to the position for which you have been nominated. None directly related to OMB.
17. **Selection:**
    (a) Do you know why you were chosen for this nomination by the President? See A-17(b), below.
    (b) What do you believe in your background or employment experience affirmatively qualifies you for this particular appointment? Service in six (6) Cabinet departments and White House; Harvard faculty work re public policy and management; managing director, major financial firm.

B. FUTURE EMPLOYMENT RELATIONSHIPS

1. Will you sever all connections with your present employers, business firms, business associations or business organizations if you are confirmed by the Senate? YES.
2. Do you have any plans, commitments or agreements to pursue outside employment, with or without compensation, during your service with the government? If so, explain. NO--NONE.
3. Do you have any plans, commitments or agreements after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization? NO.
4. Has anybody made a commitment to employ your services in any capacity after you leave government service? NO.

5. If confirmed, do you expect to serve out your full term or until the next Presidential election, whichever is applicable? Yes, subject to the pleasure of the President.

C. POTENTIAL CONFLICTS OF INTEREST

1. Describe all financial arrangements, deferred compensation agreements, and other continuing dealings with business associates, clients or customers. NONE.

2. Indicate any investments, obligations, liabilities, or other relationships which could involve potential conflicts of interest in the position to which you have been nominated. NONE. (See qualified trusts, blinding provisions, and SF-278, provided separately.)

3. Describe any business relationship, dealing or financial transaction which you have had during the last 10 years, whether for yourself, on behalf of a client, or acting as an agent, that could in any way constitute or result in a possible conflict of interest in the position to which you have been nominated. See attached response to questions C-3 and C-4.

4. Describe any activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation or affecting the administration and execution of law or public policy. See attached response to questions C-3 and C-4.

5. Explain how you will resolve any potential conflict of interest, including any that may be disclosed by your responses to the above items. (Please provide a copy of any trust or other agreements.) See trust agreements and associated blinding provisions--and responses to C-3 and C-4.

6. Do you agree to have written opinions provided to the Committee by the designated agency ethics officer of the agency to which you are nominated and by the Office of Government Ethics concerning potential conflicts of interest or any legal impediments to your serving in this position? YES.

D. LEGAL MATTERS

1. Have you ever been disciplined or cited for a breach of ethics for unprofessional conduct by, or been the subject of a complaint to any court, administrative agency, professional association, disciplinary committee, or other professional group? If so, provide details. NO. NONE.

2. Have you ever been investigated, arrested, charged or held by any Federal, State, or other law enforcement authority for violation of any Federal, State, county or municipal law, regulation or ordinance, other than a minor traffic offense? If so, provide details. NO. NONE.

3. Have you or any business of which you are or were an officer ever been involved as a party in interest in any administrative agency proceeding or civil litigation? If so, provide details. NO. NONE.

4. Have you ever been convicted (including pleas of guilty or *nolo contendere*) of any criminal violation other than a minor traffic offense? NO.

5. Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination.

E. FINANCIAL DATA

(retained in Committee file)

AFFIDAVIT

RICHARD F. DARMAN being duly sworn, hereby states that he/she has read and signed the foregoing Statement on Biographical and Financial Information and that the information provided therein is, to the best of his/her knowledge, current, accurate, and complete.

Richard G. Darman

Subscribed and sworn before me this 14 day of Dec, 19 88

Notary Public

My commission expires: 1/25/89

ATTACHMENT:

A. BIOGRAPHICAL INFORMATION (CONT'D)

SUPPLEMENT TO
"INFORMATION REQUESTED OF NOMINEE"
BY SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

RE: RICHARD G. DARMAN

(December 1988)

A-(9) Employment record: List all jobs held since college, including the title or description of job, name of employer, location of work, and dates of employment.

APRIL 1987-DECEMBER 1988:

MANAGING DIRECTOR, SHEARSON LEHMAN HUTTON INC., New York City and Washington, D.C. Member of Investment Banking Group concentrating primarily on corporate finance -- acquisitions, divestitures, debt and equity financings -- and secondarily on corporate strategy in areas importantly affected by public policy variables. (Took leave of absence upon President-elect Bush's announcement of intention-to-nominate as OMB Director, November 22, 1988; and submitted resignation effective upon confirmation.) Also: Director, American Capital and Research Corp., Vienna, Virginia (1988), and Contributing Editor, U.S. News and World Report (1987-88).

FEBRUARY 1985-APRIL 1987:

THE DEPUTY SECRETARY OF THE TREASURY, Washington, D.C. Confirmed by U.S. Senate. "Number 2" official of U.S. Department of the Treasury -- with direct line responsibility (subject to the Secretary) for all Treasury bureaus, offices, and approximately 120,000 employees. Member of negotiating teams for Tax Reform Act of 1986, "Plaza Accord" of 1986, "Louvre Accord" of 1987 and related agreements among the Group of 5 and Group of 7 industrialized countries. Member, U.S. delegation to summit meetings of industrialized countries (1985-87). Director, Federal Financing Bank and Pennsylvania Avenue Development Corporation. Recipient: Alexander Hamilton Award.

JANUARY 1981-FEBRUARY 1985:

ASSISTANT TO THE PRESIDENT OF THE UNITED STATES and DEPUTY TO THE CHIEF OF STAFF, The White House. Responsible for White House coordination of all staff work, briefing, and administrative support for the President. "Last stop" for all papers intended for the President or issued on behalf of the President. Coordinator, as Deputy to the Chief of Staff, of White House Legislative Strategy Group (1981-84) and President's Budget Review Board (1982-84). Member, special White House-Congressional negotiating teams re Economic Program, Social Security, and other such contentious legislative matters (1981-84). Participant, all meetings of National Security Council, Cabinet, and Senior White House staff. Member, U.S. Delegations to Industrialized Countries' Economic Summit meetings (1981-84). Overseer of Presidential Speechwriting and Research (1984). Member, Campaign Strategy Group (1984). Member, President's travelling party for all foreign trips and extended domestic trips.

JANUARY 1977-JANUARY 1981:

HARVARD UNIVERSITY, Officer of the University and Member of the Faculty as Lecturer in Public Policy and Management, John F. Kennedy School of Government. Coordinator, "Government and Business" substantive area of concentration (1979-80). Developed and taught graduate courses in "Public Policy and Business" and "The Management of Federal Policy Development"; taught portions of selected research seminars, selected executive programs, graduate core curriculum course in public management, and Business-Government section of Harvard Business School's Advanced Management Program. Chaired faculty committee overseeing the development of "Harvard Program of Executive Sessions" (1978-80). Member of public management appointments committee (1978-81), standing committee on degrees in public policy (1978-81), ad hoc committee on research centers (1978), and research committee (1978-81).

Also in this period: Principal, ICF Incorporated (1977-80), a Washington-based firm specializing in analysis of economics and public policy. Vice Chairman, United States delegation to the Third U.N. Conference on Law of the Sea (1977). Member, U.S. Advisory Committee on Law of the Sea (1977-80); National Academy of Sciences' Ocean Policy Committee (1979-80); co-chairman, American Branch Committee on Law of the Sea, International Law Association (1978-80); and Chairman, NAS Panel on Ocean Energy and Mineral Resources (1980). Executive Director, The White House Transition (November 1980-January 1981).

FEBRUARY 1976-JANUARY 1977:

ASSISTANT SECRETARY OF COMMERCE FOR POLICY, Washington, D.C. Confirmed as Assistant Secretary of Commerce by U.S. Senate. Principal policy adviser to the Secretary of Commerce responsible for overall management of all Departmental policy analysis, coordination, and development. Head of Office of Assistant Secretary for Policy comprised of staff of 300 including: (a) Bureau of International Economic Policy and Research; (b) Office of Policy Development and Coordination; (c) Office of Regulatory Economics and Policy; (d) Office of Energy and Strategic Resources Policy. Principal Departmental liaison with Economic Policy Board, Energy Resources Council, National Security Council. Co-chairman of Steering Committee, Cabinet Task Force on Questionable Corporate Payments Abroad. Chairman, NSC/EPB Task Force on Services and Multilateral Trade Negotiations. Co-Chairman, Commerce Regulatory Policy Council. Member: Deputies Group, Council on Wage and Price Stability; Deputies Group, Agricultural Policy Committee; ERC Steering Committees on Divestiture and on Nuclear Energy Policy; NSC/EPB Commodities Policy Coordinating Committee.

MAY 1975-JANUARY 1976:

PRINCIPAL AND DIRECTOR, ICF INCORPORATED, Washington, D.C. ICF was, in this period, principally a public policy consulting firm with offices in Washington, D.C., Palo Alto, California, and Raleigh, N.C. Responsibilities were those of a general partner and director -- in both consulting and the overall management of the firm. Served also as consultant to Vice President of the United States, Nelson Rockefeller. Resigned to assume position as Assistant Secretary of Commerce.

JANUARY 1974-APRIL 1975:

FELLOW, WOODROW WILSON INTERNATIONAL CENTER FOR SCHOLARS, The Smithsonian Institution, Washington, D.C. Developer and initial coordinator of Woodrow Wilson Center's Program in "State and Local Government: Problems and Prospects" -- focusing especially on issues related to federalism. Recipient of Woodrow Wilson Center stipend to support research on the recent fashioning of American domestic policy.

Re: Richard G. Darman -- Attachment, page 4

MAY 1973-NOVEMBER 1973:

SPECIAL ASSISTANT TO THE ATTORNEY GENERAL (Policy Analysis and Planning), United States Department of Justice, Washington, D.C. Member of Immediate Office of the Attorney General responsible for coordination of Departmental staff work for the Attorney General in all areas of policy analysis, policy planning and management planning. Special adviser to the Attorney General on issues of high sensitivity, including the prosecution of the Vice President, the establishment of an inspector general, and events related to the "Saturday Night Massacre." Member of Attorney General's Committee on Election Reform; Attorney General's Committee on Inspector General; and Attorney General's Committee on the Management of the Department -- supervising design and preliminary implementation of plans for reorganization of the Department of Justice and the Development of integrated policy analysis-planning-management systems. Liaison with White House Domestic Council staff. Resigned October 20, 1973, on occasion of the "Saturday Night Massacre."

JANUARY 1973-MAY 1973:

ASSISTANT TO THE SECRETARY OF DEFENSE (Systems Analysis/Planning), The Pentagon, Washington, D.C. Member of Immediate Office of the Secretary responsible for coordination of staff work for the Secretary and Deputy Secretary of Defense in areas of weapon systems analysis, program budgeting, and management planning. Representative of Secretary of Defense in negotiations with Litton Industries and Grumman Aerospace Corporation related to major defense contracting problems. Advisor to Attorney General-designate Richardson on matters related to transition to the Department of Justice. Transferred to Department of Justice with Secretary Richardson.

JULY 1971-DECEMBER 1972:

SPECIAL ASSISTANT TO THE SECRETARY (Policy Formulation) and DEPUTY ASSISTANT SECRETARY (Planning and Evaluation), Department of Health, Education, and Welfare, Washington, D.C. Responsible for planning and evaluation, independent contract work, and all matters of policy analysis and development related to social service systems analysis, target group policy analysis (child development, youth development, rehabilitation, aging), manpower and labor market policy analysis. Responsible also for coordination of government-wide staff activities of Cabinet Committee on Aging. Member, steering committee for "Comprehensive HEW Management and Reform." Member, defense transition group -- transferred with Secretary Richardson.

Miscellaneous Other Experience:

Public policy analysis (1969-1971) through Harvard Center for Educational Policy Research, as consultant to Office of the Assistant Secretary for Planning and Evaluation (DHEW), as Special Assistant to Assistant Secretary for Planning and Evaluation (DHEW), and as member of Assistant Secretary for Administration's special task force on the management of DHEW. Management consultancy (while in graduate school) with The Top Co., Inc., Boston, Massachusetts; Burlington Industries, Greensboro, North Carolina; and McKinsey and Co., Inc., New York City.

A-(12) Memberships: List all memberships and offices held in professional, fraternal, scholarly, civic, business, charitable and other organizations.

Professional and Educational: Council on Foreign Relations (1976-present); Washington Institute of Foreign Affairs (1978-80); International Law Association, American Branch (1978-80); National Academy of Sciences' Ocean Policy Committee (1979-80); Trilateral Commission (1988); Woods Hole Oceanographic Institute (1988); Board of Directors of Johnson Products, Inc. (1972-75), ICF Incorporated (1975), Federal Financing Bank (1985-87), Pennsylvania Avenue Development Corp. (1985-87), and American Research and Capital Corp. (1988); Trustee, Bennington College (1974-75) and The Brookings Institution (1987-88).
Social: Owl Club, Pi Eta Club, and Hasty Pudding Institute of 1770 (while at Harvard); Century Club and Public Affairs Forum (while at Harvard Business); Federal City Club (1975-80) and Metrpolitan Club of Washington, D.C. (1978-present).

NOTE: The only such memberships that would continue beyond confirmation would be the Council on Foreign Relations and the Metropolitan Club.

A-(14) Honors and awards: List all scholarships, fellowships, honorary degrees, honorary society memberships, military medals and any other special recognitions for outstanding service or achievements.

Dean's List, Harvard College, 1960-64; Harvard B.A. *cum laude*, 1964; Century Club, Harvard Business School, 1966-67; Editor, *Harvard Educational Review*, 1969-70; Fellow, Woodrow Wilson International Center for Scholars (1974-75); Member, National Academy of Sciences Ocean Policy Committee (1979-80); Recipient, Alexander Hamilton Award (1988).

A-(15) Published writings: List the titles, publishers, and dates of books, articles, reports, or other published materials you have written.

- -- R.G. Darman, "Law of the Sea: Rethinking U.S. Interests," Foreign Affairs (January 1978). [Note: Variations of this basic argument were published in other contexts as well.]
- -- R.G. Darman and L.E. Lynn, Jr., "The 'Business-Government Problem': Inherent Difficulties and Emerging Solutions," in John Dunlop, ed., Business and Public Policy (Harvard University Press: Cambridge, 1980).
- -- R.G. Darman, "Looking Inward, Looking Outward: Beyond Tax Populism" -- originally a November 7, 1986 speech released publicly by U.S. Treasury Department and subsequently reprinted in several publications.
- -- R.G. Darman, "In Search of Pioneer Spirit," The Wall Street Journal, March 20, 1987.
- -- R.G. Darman, "The Perils of Japan Bashing," U.S. News & World Report, October 5, 1987.
- -- R.G. Darman, "After the Knockdown, A Mandatory 10-Count," The Washington Post, October 26, 1987.
- -- R.G. Darman, "And Now for Ronald Reagan's Finale," U.S. News & World Report, December 28, 1987.

ATTACHMENT:

C. POTENTIAL CONFLICTS OF INTEREST (CONT'D)

SUPPLEMENT TO
"INFORMATION REQUESTED OF NOMINEE"
BY SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

RE: RICHARD G. DARMAN

(December 1988)

C-(3) Describe any business relationship, dealing or financial transaction which you have had during the last 10 years, whether for yourself, on behalf of a client, or acting as an agent, that could in any way constitute or result in a possible conflict of interest in the position to which you have been nominated.

C-(4) Describe any activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation or affecting the administration and execution of law or public policy.

(a) I have been a Director of American Capital and Research Corp. ("ACR") Vienna, Virginia. The firm has also been a client of my firm (Shearson Lehman Hutton) in both the acquisition of Kaiser Engineering Corp. and in the placement of private debt. Although I have resigned as a Director of ACR, there seems to me to be a potential appearance problem because ACR does a high percent of its contract work for the U.S. government. It would be my intention, therefore -- if confirmed -- to recuse myself from any particular contractual matter specifically and directly involving ACR. (I would not expect to recuse myself from issues of broad or general policy affecting a larger class of parties of which ACR might be merely one.)

(b) I have been a Trustee of The Brookings Institution, Washington, D.C. Although I have resigned as a trustee, and have no continuing relationship with Brookings, I would think it appropriate to recuse myself for at least one year from any particular matter directly and specifically involving Brookings. I would not expect to recuse myself from issues affecting a larger class of parties of which Brookings might be merely one.

(c) I have been a member of Shearson Lehman Hutton teams serving the following clients on particular matters that could be affected by specific government actions. NOTE: In none of these cases did I engage in any lobbying of the Executive branch; nor do I have any continuing relationship with any of these former clients. Nonetheless, I do feel there is a potential appearance problem in these cases -- and have therefore indicated my intention to recuse myself as noted below.

- ARMCO: Shearson advised *re* ARMCO joint venture with Kawasaki. NOTE: If confirmed, I would expect to recuse myself from participation in any governmental action directly and specifically affecting this transaction.

- ARMCO and Bethlehem Steel: Shearson performed analysis of alternative pension funding policies and options for the steel industry. NOTE: If confirmed, I would -- for at least one year -- recuse myself from participation in any policy matter directly and specially addressing steel industry pension funding. I would not expect to recuse myself from pension policy and regulatory issues generally.

- IBM: Shearson performed general acquisition review for IBM. NOTE: If any IBM acquisition growing out of this review were to go forward, I would expect to recuse myself from participation in any governmental action directly and specifically affecting this particular IBM acquisition.

- Pioneer Savings Bank, North Carolina: Shearson performed analysis of the size of the general S&L funding problem (under alternative assumptions), the ability of the S&L industry to finance possible solutions to this problem, and the viability of alternative funding solutions. NOTE: The Chairman of Pioneer, Theo H. Pitt, Jr., was also serving as Chairman of the U.S. League of S&L's; however, the client for this analysis was Pioneer Bank (and Pitt personally), not the U.S. League. If confirmed, I would expect to recuse myself from any particular matter involving Pioneer Savings for at least one year. I would not expect to recuse myself from matters of general policy affecting the savings and loan industry.

- Space Industries Inc., Webster, Texas: Shearson provided advice and analysis re possible stock offering, debt placement, and project finance for Space Industries' "ISF" (industrial space facility). NOTE: If confirmed, I would recuse myself from participation in any particular matter directly and specifically affecting Space Industries' industrial space facility. I would not expect to recuse myself from participation in space policy and budgeting generally.

(d) While at Shearson, I contacted the FDIC and the Federal Reserve Board to inform these independent agencies with respect to legal actions being taken (or contemplated) by Shearson in order to protect its financial interest as a major preferred stockholder in M-Corp., a Texas bank holding company. I have no continuing interest in either Shearson or M-Corp. If confirmed, however, I would recuse myself from any particular matter involving M-Corp. I would not expect to recuse myself from issues of general policy, budgeting, and regulation affecting the banking industry.

(e) I have been a Managing Director of Shearson Lehman Hutton Inc. in the Investment Banking Group. (April 1987 - December 1988). I have taken a leave of absence without pay for the transition period; have formally resigned from the firm effective on the date of Senate confirmation; and I have no continuing financial interest of any kind in Shearson. I would, however, think it appropriate to recuse myself from any particular matter directly involving Shearson for at least one year. I would not expect to recuse myself from matters of policy, budgeting, and regulation affecting the financial services or investment banking sectors generally.

NOTE: The foregoing list does not include activities taken to influence public policy while I was acting in an official capacity for the U.S. government -- as I was for most of the period in question (i.e., before joining Shearson in April 1987).

RESPONSES TO PREHEARING QUESTIONS

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I. NOMINATION PROCESS AND POTENTIAL CONFLICTS

Question 1. Were any conditions, expressed or implied, attached to your nomination to be Direcor of the Office of Management and Budget?

Answer. No.

Question 2. Have you made any commitments with respect to the policies and programs you will attempt to implement as Director of OMB? If so, what are they?

Answer. I have made no such commitments.

Question 3. Are there any issues involving OMB from which you may have to disqualify yourself? If so, please explain.

Answer. I believe there are no policy, budget, or regulatory issues involving OMB with respect to which I will be legally required to disqualify myself, if I am confirmed. My wife and I have established "Qualified Diversified Blind Trusts" which have been approved by the Director of the Office of Government Ethics and the Attorney General. Because the assets held by these Trusts are diversified and placed with an independent trustee over whom I will not have control, I am advised that the Ethics in Government Act will not require me to be disqualified with regard to these assets. With regard to other assets I now hold, I am not aware of any reason that might require disqualification. In response to the Committee's standard request for biographical and financial information—in particular, Committee questions (C)(3) and (C)(4)—I noted prior relationships with certain firms and institutions. To the best of my knowledge, I have no continuing financial interest in any of these firms or institutions. However, it would nonetheless be my intention to address any potential appearance problem in the manner specified in my response to standard form questions (C)(3) and (C)(4).

II. ROLE AND RESPONSIBILITIES OF OMB DIRECTOR

Question 1. What goals do you expect OMB to achieve in the next four years?

Answer. With regard to the budget, a primary goal is set by Gramm-Rudman-Hollings (G-R-H): to meet the G-R-H deficit targets. While considerable progress has been made toward this goal, it will take hard work by Congress and the Administration to achieve it. For OMB, this will mean careful scrutiny of budgets, leadership in providing successful overalls strategies for deficit reduction, and close attention to management improvements to realize efficiencies wherever possible.

Another OMB goal will be to emphasize and develop a process to give greater emphasis to longer-term investment issues.

In the procurement field, there are a number of areas where I hope we can help to improve the way the Government does business, working with the various procuring agencies and through our Office of Federal Procurement Policy. These include: developing a Government-wide intellectual property-rights policy, dealing with inventions, technical data, and computer software, that will provide stronger incentives for marketing new technologies; putting into operation the new Federal Acquisition Regulatory Council (made up of OFPP, DOD, NASA, and GSA) included in the recently enacted OFPP reauthorization bill to help streamline and simplify the procurement rule-making process; and providing clear guidance to agency procurement officials and Government contrators on consultant conflict-of-interest and procurement-integrity standards.

If confirmed, my goals for OMB's information and regulatory review activities for the next few years would be to attempt to assure that the benefits to society of regulation outweight the coast of federal intervention. Information gathering by government is necessary, but we must be vigilant in reducing the burden of unneeded information collections and in minimizing the burden of new collections. In sum, regulation and information collections are critical government activities, but they must be implemented with intelligence, balance, and restraint.

If confirmed, I would intend to complete the implementation of reforms begun by the Reagan Administration. These include: installing financial management systems that will provide financial accounting and management information that is compatible across agencies, integrated at the agency level, and responsive to both financial and budget information needs; and completing the reform of credit systems to assure that they operate under the business rules of the private sector, and that their budget analysis makes clear the subsidies built into each credit program.

I would plan to organize management staff in such a way that increased attention is given to major, long-term issues facing government and society. And, for the nearer term, I would expect to introduce a very simple government-wide management-by-objectives system—to help assure that appropriate attention and resources are focused on a select set of major priorities.

Question 2. What do you believe are the most important functions of the position to which you have been nominated?

Answer. The principal functions of the OMB Director are: managing the preparation of the budget of the United States; advising the President on the budget and economic policies for the Nation; supervising the administration of the budget; seeking governmental efficiency and effectiveness through improved performance evaluation and management; clearing departmental recommendations concerning proposed legislation and concerning Presidential action on bills passed by Congress; processing and clearing Executive orders; contributing to the direction of procurement policy; and reviewing initiatives on information, paperwork, and regulatory policies. All of these seem to me to be important functions.

Question 3. How do you envision the relationship and responsibility of the Director to (a) the President, (b) the Congress, (c) other Executive Branch agencies, and (d) independent regulatory agencies?

Answer. The OMB Director reports directly to the President. The Director also performs his functions under the direction of the President, pursuant to statute (5 U.S.C. Section 502(a)). Most of OMB's principal functions are functions vested in the President which he has delegated to OMB. For example, the preparation of the budget is a function vested in the President which has been delegated to OMB. The Director also advises and assists the President as the President may direct, in addition to performing the budgetary and management functions delegated by the President.

The OMB Director's relationship to the Congress is based primarily on his role as the principal representative of, or official responsible to, the President concerning federal budgetary and management matters. The OMB Director provides a number of statutory and other reports to the Congress and is frequently called to testify before the Congress on a wide range of budgetary and fiscal policy matters. The Congress has oversight over OMB activities as it does with regard to other agencies.

In addition to guiding the development and implementation of the budget, OMB's relationship with the Executive Branch agencies is normally one of providing coordination to assure consistency with the President's policies and programs.

OMB's relationship to the independent regulatory agencies is not uniform, as it is with respect to Executive Branch agencies. Some independent regulatory agencies are not under full OMB budgetary coordination (*e.g.,* CPSC, CFTC, ICC, MSPB), while others are (*e.g.,* SEC, NRC, FCC). With respect to budget execution, most of the independent regulatory agencies are subject to apportionment by OMB and thus are within the budgetary execution functions of OMB. With respect to procurement and management matters, the independent agencies are treated much the same way as Executive Branch agencies. In the area of regulatory review, these agencies are excluded from review under Executive Order 12291, but included under the Paperwork Reduction Act. In short, the relationship of OMB to the independent regulatory agencies depends on the subject matter. In some cases they are treated exactly like Executive Branch agencies, while in other cases they are treated differently.

III. ECONOMIC POLICY

Question 1. The last two OMB directors to come before this Committee pledged to make budget deficit reduction a top priority. Yet budget deficits during the first seven years of the Reagan Administration have averaged an historically high 4.7

percent of GNP. What approaches will you take to achieve budget deficit reduction? How will these differ from the actions of your predecessors?

Answer. While the deficit averaged 4.7 percent of GNP during the Reagan Administration (FY82–FY88), the deficit peaked in 1983 at 6.3 percent of GNP and has since declined to 3.2 percent.

A major rise in the budget deficit in the early 1980s occurred as a result (to a substantial degree) of the 1981–82 recession. Almost all forecasts, including those of the Administration, failed to anticipate that downturn, especially its length and severity. The recession pushed the deficit to its highest point of the postwar years.

The declining trend of the deficit since 1983 is a result of the strong six-year economic expansion, as well as actions of the Reagan Administration and Congress to control spending in response to the Gramm-Rudman-Hollings legislation. I believe that, in contrast to my predecessors, I am fortunate to have the potential to operate within the more disciplined framework of G-R-H. It is also my sense that both the Legislative and Executive branches have learned the value of comprehensive, negotiated settlements—as represented by the Bipartisan Budget Agreement of 1987. I would hope to continue to seek such agreements—appreciating that, in their absence, the G-R-H sequester would remain as an underlying source of discipline.

Question 2a. In 1985, the Congress passed the Balanced Budget and Emergency Deficit Control Act, commonly known as the Gramm-Rudman-Hollings law. In 1987, the Congress passed the Balanced Budget and Emergency Deficit Control Reaffirmation Act, which amended the original law by increasing the maximum deficit targets and delaying for two years a balanced Federal budget.

Do you believe these targets are attainable?

Answer. I believe that with satisfactory Executive-Legislative cooperation, the targets would be attainable. I do not beleive that it would be helpful or prudent to reopen the issues of sequestration at this time—nor, indeed, until a credible deficit reduction program is enacted.

Question 2b. In 1985, the Congress passed the Balanced Budget and Emergency Deficit Control Act, commonly known as the Gramm-Rudman-Hollings law. In 1987, the Congress passed the Balanced Budget and Emergency Deficit Control Reaffirmation Act, which amended the original law by increasing the maximum deficit targets and delaying for two years a balanced Federal budget.

Would you recommend any changes in the automatic sequestration procedures mandated by this law?

Answer. I am not in favor of amending the G-R-H legislation just to modify the sequestration procedures; however, if G-R-H is amended for any reason, I would recommend that revision of the spendout provisions be considered. G-R-H specificially requires OMB to assume that the aggregate spendout rate from sequestrable discretionary resources for defense programs not differ by more than one-half a percentage point from the comparable rates contained in the sequester report submitted for the previous year. G-R-H applies the same requirement to non-defense programs. Also, G-R-H specifies that aggregate outlays for medicare in the G-R-H baseline shall not differ for technical or economic reasons by more than one percent from the comparable level published in the current services baseline transmitted with the President's budget for the fiscal year.

This past summer, the spendout adjustments required OMB to add $0.8 billion to the Gramm-Rudman-Hollings baseline deficit. Although the Reagan Administration opposed the spendout adjustment provisions when the G-R-H act was amended in 1987, OMB had no choice but to apply the provisions during the FY 1989 sequester process, and—unless the law is changed—will again be forced to apply the provisions during the FY 1990 process.

Question 3. List and explain the quantitative measures of the Federal budget deficit which you plan to use at OMB.

Answer. I believe it appropriate to continue to use the unified budget concept—especially for purposes of determining Federal borrowing needs in the public market. This measure should be considered not only in dollars, but also as a percent of GNP.

I believe it important also to give somewhat greater emphasis to analysis of total debt as a percent of GNP, and to related issues of future debt service capacity. In addition, I would hope to distinguish better between expenditures for investment and expenditures for current consumption (or operations). This type of reporting and analysis is not inconsistent with conventional unified deficit reporting. It is complementary—serving different, but at least equally important, purposes.

Question 4. Do you plan to balance the Federal budget during your term as OMB Director?

Answer. I would certainly hope to. That is what the law requires.

Question 5. Do you believe that achieving a balanced Federal budget is the primary role of fiscal policy?

Answer. It is desirable that the budget be balanced as required by Gramm-Rudman-Hollings. But no one seriously proposes that the budget be balanced under all conceivable economic or political circumstances. G-R-H makes specific exceptions for the possibilities of recession or war, and this merely codifies what has been standard budget practice for many decades.

Fiscal policy also needs to be concerned with the pattern of Federal outlays and receipts, not just their overall totals. Deciding how much should be spent on each major program is important, as are decisions about which taxes are levied, at what rates, with what exceptions.

The more fundamental objective of fiscal policy (and economic policy generally) is assuring continued U.S. economic growth and a pattern of investment that can assure continued U.S. leadership.

Question 6. In your opinion, what effect has the Federal budget deficit had on the U.S. economy over the last eight years?

Answer. The Federal deficit has had many effects on the economy in the last eight years, but it could not possibly have had all of the effects that have been attributed to it. At various times, the deficit has been blamed for inflation, recession, high interest rates, a rising exchange rate, a falling exchange rate, and the trade deficit. It has been given the credit for the strength of the recovery and also blamed for the poor productivity performance that is slowing the recovery. This is only a partial list, but it illustrates the contradictory nature of many of the supposed effects of recent fiscal policy. The deficit may have contributed in some way to all of these problems, but it cannot have been the sole cause of each and every one of them.

The deficit's main effect has been to absorb saving that would otherwise have been available for private investment, thus reducing capital formation. This came at a time when private saving was falling for reasons unconnected with the deficit. The result was to reduce net national saving to its lowest rate as a share of GNP since the end of World War II. Investment was partially cushioned from this decline in the saving rate by a large inflow of foreign investment funds. Even so, net investment, after adjustment for depreciation, has been lower in the 1980s (as a percent of GNP) than in any previous postwar decade.

For a host of reasons, the long-term interests of the U.S. require that we increase our productivity growth. To that end, increasing our saving rate is important (although not sufficient). And reducing the Federal deficit is among the ways that we must help increase our saving and investment.

Question 7. What do you believe are the economic consequences of continually large Federal budget deficits?

Answer. Please see my response to the previous question. In addition, I would note that there is a moral issue related to the economic issue: to the extent that deficits build up debt for future generations without corresponding investment in the future capacity to service that debt, a society is essentially robbing from unrepresented future voters to pay for the current consumption of existing voters. That seems to me to be wrong—in addition to being economically unsound.

Question 8. What do you believe is the impact of the Federal budget deficit on interest rates?

Answer. Interest rates are affected by many factors. The Federal deficit is only one. The monetary decisions of the Federal Reserve System (and, indeed, other Central Banks) for example, have a more immediate day-to-day influence on interest rates than the deficit does. Private demands for credit and the private supply of loanable funds are also decisive influences.

Since 1980, the deficit has risen significantly, but long-term interest rates have declined after peaking in fiscal year 1982. The peak year for the deficit, 1986, was the second lowest year for interest rates in the decade. This does not rebut the notion that deficits and interest rates are connected. (The lowest year for both deficits and interest rates was 1987.) But it does point up how difficult it is to establish solid evidence for this relationship. Careful statistical studies have failed to establish how much, if at all, Federal borrowing affects interest rates. Although some have claimed that this proves there is no such connection, it would be more accurate to say that it shows only that the other powerful influences on interest rates tend to mask this connection in the statistical data. As a practical matter, the effect of deficits on interest rates depend on the interrelations with other policies and the context.

Fiscal years	Budget deficit [1]	Corporate AAA bonds [2]	
		Nominal yield	Less expected inflation
1980	74	11.4	3.1
1981	79	13.7	5.6
1982	128	14.5	7.4
1983	208	11.9	5.4
1984	185	12.7	6.3
1985	212	11.8	6.3
1986	221	9.5	4.2
1987	150	9.0	3.7
1988	155	9.9	4.8

[1] In billions of dollars.
[2] Percent per annum.

In the current context, eliminating the deficit should help lead to lower interest rates, but the magnitude of the decline is hard to forecast with confidence. Any decline would also depend on sound monetary policy, and the continued willingness of foreign investors to hold funds in the United States despite lower interest rates. This last proviso is not unreasonable if U.S. economic policies promise continued growth and low inflation.

Question 9. The fastest rising portion of the Federal budget is interest on the national debt. What steps are you prepared to take to reduce this portion of the budget?

Answer. Net interest on the national debt more than doubled as a percentage of outlays between FY72 and FY85 (and increased more than eight-fold in nominal dollars), but it has risen only slightly over the last three fiscal years, and is projected to decline after 1990.

Fiscal year	Net interest [1]	Percent of outlays
1972	15.5	6.7
1981	68.7	10.1
1984	111.1	13.0
1985	129.4	13.7
1986	136.0	13.7
1987	138.6	13.8
1988	151.7	14.3
1989 estimate	165.7	14.6
1990 estimate	170.1	14.8
1994 estimate	132.3	10.1

[1] In billions of dollars.

Net interest payments depend on the existing debt (which represents accumulated deficits from past years), the current and future deficits, and the level of interest rates. Obviously the OMB Director and the Administration cannot stop interest payments on the existing debt, but the interest burden can decline by cutting the budget deficit in accord with the Gramm-Rudman-Hollings guidelines. A credible deficit reduction plan can also help to lower interest rates by reducing the risk premium that is now built into nominal interest rates, and by augmenting the pool of domestic savings to finance productive investment.

Question 10. What is the long-term objective of Federal budget policy? Do you believe we should have as our goal the gradual elimination of the national debt. Is this realistic?

Answer. It is probably not too realistic to discuss eliminating the national debt under current circumstances. Simply holding the debt constant by balancing the budget would be a significant accomplishment in itself, and one that is not likely to be achieved for at least a few more years.

One point should also be made concerning the projected Social Security surplus. Those surplus funds are currently being used merely to offset part of the larger deficit in the rest of the budget. Even if the budget is balanced by 1993, as required by Gramm-Rudman-Hollings, the Social Security surplus would still be used for this purpose. In other words, under current plans, the Social Security surplus will not make a positive addition to the nation's wealth. If that is desired, then it will be necessary to go beyond a balanced budget to plan for a zero deficit in the non-Social Security budget. That would be an even more ambitious goal than reaching the current G-R-H targets.

As a general matter, the long-term objectives of budget policy should be to continue U.S. growth, to assure investment for future needs, to assure that security interests are protected, and to provide for an appropriate level of social insurance. The key is that debt be kept within serviceable bounds as a percent of GNP—and that it be used, in part, to finance future capacity to produce—not that it be reduced to some arbitrary nominal amount.

Question 11. Please explain how you see fiscal policy, as reflected in the Federal budget, interacting with the United States monetary and trade policies under President Bush. Please explain what you foresee your role to be as Director of OMB in such interactions.

Answer. A sound fiscal policy—one that progressively reduces the budget deficit—eases pressures on financial markets, and when combined with sound monetary policy, can help lower interest rates. A sound fiscal policy can also help increase productivity and improve U.S. competitiveness. As OMB Director, I would expect to collaborate with other economic policy officials in pursuing these ends—and I would, of course, feel free to advise the President on any and all of them.

Question 12. It is generally acknowledged that the size of the U.S. budget deficit and the amount of U.S. debt will be issues in future negotiations on currency stabilization. What role do you foresee OMB playing in such discussions?

Answer. While I strongly favor the G-5, G-7, and Summit coordination processes (and had a role in their development), I believe that the Secretary of the Treasury should have the lead in this area. I will, of course, offer my views, as appropriate, on an informal basis within the U.S. Government. But I will, at the same time, seek to help assure that the Treasury Secretary has sole responsibility for negotiating and speaking on behalf of the U.S. Government.

Question 13. Please outline your views of the relationship between the U.S. trade deficit and U.S. Federal budget deficit.

Answer. The increase in the budget deficit in the early 1980s was one of the reasons the trade deficit deteriorated, but it was not the only reason. The combination of a rising budget deficit, an anti-inflationary monetary policy, favorable investment incentives, and other factors led to higher interest rates in the United States, attracted capital to American markets, and fostered a strong dollar. The appreciation of the dollar helped to drive up the trade deficit.

But other factors were at work too. In the early 1980s the restoration of confidence in the American economy made it more attractive to investors worldwide and pushed up the demand for the dollar in international exchange markets. Political and economic turmoil in third world countries cut into the outflow of U.S. foreign investment and further pushed up the dollar. The strong U.S. economic recovering beginning in late 1982 attracted foreign investment, and had a direct effect on U.S. import demand. The recovery was partly fostered by the deficit, to be sure, but that was not necessarily a bad thing. Had any of these additional factors not been present, it is unlikely that the trade deficit would have risen as much as it did. They could well have been different even without a change in the Federal deficit.

More recently, some of these other factors have changed and the U.S. trade deficit has begun to decline. This has happened even though the Federal budget deficit is still too high. The U.S. dollar whose sharp ascent helped create the trade deficit has fallen. The correction in the exchange rate is slowly having its effect on trade flows. Our trading partners have been growing more rapidly recently, and they have been able to purchase more U.S. exports. Further progress is needed in restoring stability and prosperity among third world debtor nations, but as this happens the demand for U.S. goods will rise.

If budget deficits were the only cause of trade deficits, then most countries would run large trade deficits, because almost all countries run budget deficits. The fact is that many trade surplus countries, like Japan, also have large government budget deficits.

Question 14. In your mind, what economic conditions must prevail—outside of those under the control of OMB—for the U.S. economy to achieve the 3.5 percent rate of growth in 1989 and the 3.4 percent in 1990 currently projected by the Reagan Administration?

Answer. It would not take extraordinary circumstances for the U.S. economy to achieve these projected growth rates. They are not much different from what we are currently experiencing. Since the third quarter of 1986, the U.S. economy has grown at an average rate of 3.8 percent. In 1988 alone, the growth rate would have been about 3.3 percent had it not been for the drough's effect on farm output. The Reagan Administration forecasters assumed that the economy would continue to grow at about this pace, somewhat slower than in 1987, but not too different from 1988 after allowance is made for the effects of the poor harvests.

There have been two main reasons for the stronger pace of growth since 1986. First is the improvement in international competitiveness which has led to a strong rebound in U.S. exports. Second is an increase in business investment spending. These are healthy developments, and if they continue, a 3.0 to 3.5 percent growth rate over the next two years, is entirely possible.

There should also be some boost to growth next year if the farm sector sees a return to normal levels of output. Just as the drought held down growth in 1988, a recovery from the drought should add to growth in 1989. This does not require abnormal production rates on the farm, merely a return to the average harvests of previous years. It one were to put aside the expected farm rebound, the Reagan Administration's growth forecast for 1989 would have been only 2.8 percent.

Question 15. What specifically must OMB do to assure these rates of growth in the U.S. economy?

Answer. The best thing OMB can do to help maintain growth and extend the economic expansion is to help the President in submitting a budget that reduces the Federal deficit helps increase saving and investment, and ultimately helps increase productivity and competitiveness.

Question 16. President-elect Bush has made it clear, both during his campaign and after his election, that the Bush Administration will not seek to increase taxes. Would you clarify what is meant by a "tax increase?" Which of the following would you consider a "tax increase" and why.

(a) An increase in the fees charged to visit the national parks;

(b) Elimination of the deduction for interest incurred as a result of certain kinds of borrowing;

(c) An oil import fee;

(d) Raising existing excise taxes on gasoline, alcohol, and tobacco;

(e) A surtax on income;

(f) Repeal or postponement of income tax rate indexing;

(g) Reduction in personal or dependent exemptions;

(h) Taxation of employer-provided fringe benefits?

Answer. President Bush has stated that he would oppose all new taxes. That doesn't mean that all increases in government receipts are "new taxes." Under current law, receipts will rise by $366 billion between FY89 and FY94 (current services estimates), mainly from overall economic growth. As a percentage of GNP, however, receipts will remain roughly stable at 19 to 19½ percent of GNP.

All of the items on the list, of course, can raise revenues. But not all are always termed "taxes."

A fee charged to visit national parks should be considered a "user fee" rather than a tax as long as the government is directly charging the beneficiary only for the cost of the service provided by the government. In some circumstances (depending on the application of funds), a gasoline tax might also be considered a "user fee"—as might alcohol and tobacco excises. The public, however, tends to see these rather unequivocally as "taxes."

Items (b) and (h) might, in some cases, be considered "definitional" changes; item (c) might be construed as a tariff; (e) and (g) are more clearly income tax increases as commonly understood; and item (f), although less commonly understood, is a kind of income tax increase.

One could engage in long discussions of when one or another revenue measure is or is not a "tax." Putting academics and sophistry aside, however, my suspicion is that in the end such definitional matters are political: applying the old if-it-looks-like-a-duck rule, if it looks like a "tax" to most Americans, it's a tax.

Question 17. Which of these past actions would you have considered a "tax increase" and why:

(a) The acceleration of the effective date of scheduled Social Security tax rate increases;

(b) The exposure of a portion of the Social Security benefits of higher income Social Security recipients to taxes;

(c) The extension of the 3 percent telephone tax through 1987;

(d) The deferral in the reduction in the maximum gift and estate tax rates?

Answer. Taxing a portion of Social Security benefits for higher income Social Security benefits was part of a broad package of Social Security reforms passed in a bipartisan package in 1983 that also included accelerating Social Security rate increases on current wage earners. At the time, the former was viewed by some as a "benefit reduction" and the latter was termed an "acceleration," though technically both were tax increases.

The other two items—extension of the 3 percent phone tax, and a deferral in the reduction of gift and estate tax rates—are technically temporary tax extensions rather than permanent tax increases.

Question 18. Do you favor consumption taxes over income taxes, given the same level of tax incidence?

Answer. For a given level of taxes, there are advantages and disadvantages to the two types of taxes. The income tax raises to cost of saving relative to consumption, leading to less saving and investment.

Consumption taxes are no panacea, however. A broad-based consumption tax would have definitional and measurement problems which could be as difficult to handle as the income tax. Moreover, implementing a brand new tax could be administratively difficult. It also may be difficult to provide the same degree of progressivity of the overall tax burden with consumption taxes as with income taxes without adding additional complications.

In light of the President's pledge against any new taxes, as well as the pluses and minuses of substitution consumption taxes for income taxes, I do not foresee major changes in the tax structure.

Question 19. What are the advantages and disadvantages of different types of consumption taxes (including, but not limited to, a general excise tax, a value-added tax, a fuels tax, and alcohol tax, a tobacco tax, and a stock transfer tax)?

Answer. All taxes distort economic behavior in some way, and President Bush has stated his opposition to all new taxes.

The question includes two broad-based taxes and four taxes based narrowly on specific goods and services. Consumption taxes that only apply to a narrow list of commodities have little rationale unless there is an externality that affects the public-at-large that is not paid for by the private user. Then, there is justification to charge for the externality. This rationale can be used to justify the present taxes on cigarettes and alcohol. Cigarette and alcohol consumption increases in these taxes would be necessarily justified. Once the user compensates the public for the externalities, any additional charge is purely a tax and not a user fee. The gasoline tax is a "benefit tax." It is a way of charging highway users for the cost of building roads and the wear and tear on the nation's highways.

The value-added tax (VAT) is a tax that essentialy falls on the increase in the worth of the final output produced at each stage of production.

From an economic efficiency aspect, a VAT tax, imposed at each stage of production, has advantages over a general excise tax at a retail or wholesale level. A value-added tax also has some advantages in international trade; it can be imposed on foreign imports so that they do not have an advantage over domestic products without violating the GATT agreements. The VAT tax can also be rebated to exporters without violating these agreements, whereas rebates of the corporation income taxes can not. Implementing a value-added tax, however, would require complex new administrative and enforcement machinery. Further, because the VAT is a "hidden" tax, capable of raising large amounts of additional revenue with seemingly small percentage rate changes, it is likely to lead to a higher level of taxation and spending that an income-based tax.

A stock transfer tax has no evident justification. It would cause distortions in the financial markets, and could cause many investors, particularly institutions, to shift their equity trading away from organized exchanges and to foreign countries.

Questions 20 & 21. Please expalin President-elect Bush's concept of a "flexible freeze" and a general outline of how you will attempt to implement this proposal over the next four years?

Under the "flexible freeze" proposed by President-elect Bush, is it possible to meet Gramm-Rudman targets without a significant savings in interest costs as a result of lower interest rates?

Answer. The concept behind the flexible freeze proposal is straightforward: the deficit can be eliminated over several years without a tax increase and without reducing social security by holding the growth in the non-interest, non-social security portions of the budget to no more that the rate of inflation. Within this group of programs, which includes defense, international programs, all entitlement programs except social security, and domestic discretionary programs, some programs could grow at rates higher than inflation of growth in other programs were held below the inflation rate.

To demonstrate the feasibility of a "flexible freeze," the current services estimates contained in President Reagan's recently released FY 1990 Budget provide an intresting comparision. Despite the additional spending assumed using the current services concepts, the current services deficits are estimated to decline from $160 billion in FY 1989 to under $10 billion by FY 1994. If the growth in non-social security entitlement program were held to inflation (i.e., one variation of the freeze concept), the current services estimates indicate that the Federal Government would have a surplus in FY 1993. This of course, is but one of many possible approaches to the same result.

Of course, these projections assume continuation of the economic expansion that we have enjoyed for the past six years, and they assume that interest rates will decline. Actual economic growth and interest rates could be either higher or lower than these projections. If a credible deficit reduction program is adopted, highly credible economists have stated that a substantial interest rate reduction is likely. If one does not assume such an interest rate effect, clearly spending growth would have to be restrained in other ways consistent with the flexible freeze concept.

Question 22. Is it possible that the assumptions made by President-elect Bush regarding the levels of interest rates could be overwhelmed by any number of outside events or developments? If so, please explain.

Answer. Of course, there are outside factors that could push interest rates up or down in unexpected ways. Government policies are not the only factors that influence them. There is no evident reason, however, to expect radical changes in interest rates over the near term.

Actually, to my knowledge neither President-elect Bush nor his advisers have made any official forecasts of interest rates or other macroeconomic variables. They have stated that agreement with Congress on a credible defficit reduction plan will help to bring about lower rates—a position with which many distinguished economists agree.

Question 23. If the price of oil rises because of the recent OPEC agreement, inflationary forces could generate upward pressure on interest rates. How would such a scenario alter OMB's plans for achieving the Gramm-Rudman targets through a "flexible freeze" approach?

Answer. Although there has been a $3/barrel rise in spot oil prices since OPEC's latest accord was reached (to $16/barrel), this only brings prices back to where they were in the first half of 1988. The fundamentals of the world oil market suggest that excess supply should exert downward pressure on prices for several years. Many experts would agree that OPEC will be lucky just to hold the line.

All other things being equal, higher inflation would not have a major impact on the budget deficit; outlays are increasingly targeted in real terms, and the tax system is indexed. Recipients increase about proportionately to changes in outlays, when the change in inflation is fully incorporated into nominal interest rates. The "flexible freeze" approach is an attempt to freeze most outlays in real terms. As long as the economy keeps growing, real receipts will rise, and the budget deficit will be reduced. This will be true under a lower inflation path (as assumed in the FY90 budget) or with higher inflation. Of course, higher inflation could, and likely would, translate into higher interest rates and slower growth. That is exactly why fiscal and monetary policies should be designed to avoid increased inflation—a relatively manageable challenge in the absence of unforseen shocks.

Question 24. The General Accounting Office published a package of issues for the Presidential transition, including one entitled, "The Budget Deficit." In this publication, the GAO identified 18 areas of "unfunded costs waiting to greet the new administration." These include the funding needs of the Federal Savings and Loan Insurance Corporation and the Department of Energy's nuclear facilities. What priority do you see for the funding needs identified in the GAO report?

Answer. GAO's list includes the following items:

(1) a bailout for FSLIC
(2) An expensive nuclear cleanup by DOE
(3) A cleanup of hazardous waste at military facilities
(4) Unbudgeted costs of DOD's five-year plan
(5) The cost of building the first phase of SDI
(6) Modernization of computer and telecommunications systems (GAO lists five examples, thus accounting for the 18 areas of unfunded costs mentioned in the question)
(7) Modernization of the air traffic control system
(8) NASA's plan for a space station
(9) Long-term health care for the elderly
(10) New corporate tax breaks to subsidize retirees' health benefits
(11) Needed highway and bridge repairs
(12) Needed repairs to the stock of public housing
(13) Deferred maintenance in the public parks

(14) New prisons

Funds are provided in President Reagan's 1990 budget for most of these items. Where funds are not provided, it is my understanding that it is because the Reagan Administration did not find the immediate need compelling. And in some cases, the disagreement between GAO and the President's budget is not necessarily over priorities, but over the estimated cost of some of these initiatives.

GAO has magnified these differences by presenting only projections of total costs—in some cases over 20 years or more. The budget provides annual cost figures for the next five years.

But, in general, the GAO analyses are useful—and are being given serious attention by the incoming administration. I am not yet in a position, however, to report either my own judgments (which have not been fully formed) or President-elect Bush's decisions (which have not yet been made.)

Question 25. Many of the policy problems facing this nation at present (e.g., the greenhouse effect, the revitalization and clean-up of nuclear weapons production facilities, Social Security) will have their most serious budgetary impacts in the years significantly beyond the time horizon embodied in current OMB budget planning procedures. How will OMB, under your leadership, treat such issues using these procedures? Should OMB's budgetary planning procedures be changed to account for these long-term problems?

Answer. It is my impression that there may be a need for more long-term planning in the budget process. I have not yet become familiar enough with the existing organization and people, however, to have definitive and detailed views on how to address this problem. I definitely intend to see that it is addressed; I am simply not ready yet with details.

Question 26. Both you and President-elect Bust have indicated a willingness to cut entitlement programs other than Social Security. Please list your priorities for which programs might be scaled back.

Answer. The FY 1990 Reagan Budget contains proposals affecting entitlement programs, which would:

Contain exploding State administrative costs in the Medicaid, Food Stamps, and AFDC programs. Restructure Federal financing from an uncapped matching formula to a fixed grant, without affecting recipients' benefits.

Discontinue meal subsidies for upper income students in schools, child care facilities, and other institutions. Maintain meal subsidies for students whose family incomes are below 185% of poverty.

Limit the Federal Windfall Subsidy for retired rail employees. Replace 25% of the Federal subsidy with rail sector funding, maintaining benefits at current levels.

Pay no COLA in 1990 for civilian, military, and foreign service retirees, and permanently index benefits thereafter by the Consumer Price Index (CPI) minus one percent.

Eliminate the 1990 rail pension cost-of-living adjustment (COLA), and pay uniform rail pension COLAs for all non-social security equivalent benefits.

Eliminate the lump-sum annuity payment in the Civil Service Retirement System (CSRS).

Renew Medicaid cost containment incentives originally enacted in the Omnibus Budget Reconciliation Act of 1981, but which expired at the end of 1984. This proposal would not change Federal rules for eligibility or benefits.

Restrain the rate of increase in Medicare spending by reducing payments for certain over-priced and add-on services and equipment, slowing the rate of increase in hospital payments, and providing incentives for the hospital industry. These modifications would neither adversely affect beneficiaries nor alter the new Medicare Catastrophic Coverage Act benefits.

All of these are now under review by the incoming Bush Administration. I cannot yet say which of these might be supported by President-elect Bush—nor have I yet decided upon specific recommendations.

Question 27. Do you agree that we need to increase research and development activities in this country? If so, what specific role should OMB play in this regard?

Answer. Yes, I agree that research and development activities should be increased. Many academic studies have documented that R&D investments lead to longer-term innovation and productivity improvement, and help improve U.S. economic competitiveness.

I believe that OMB plays an important role in this area, in two respects:

1. By working with the President and his other economic advisors to establish sound economic and fiscal policies that will foster increased private R&D investment.

2. By ensuring that the Federal budget provides funding for appropriate governmental R&D priorities.

Question 28. The National Economic Commission, which this Committee helped create, should issue its recommendations on reduction of the budget deficit by March of 1989. What do you regard as the role of the National Economic Commission in the Federal budget deliberations? Do you anticipate OMB incorporating these recommendations into President Bush's budget submission for fiscal year 1990? If so, in what way?

Answer. President Reagan submitted his FY 1990 budget to the Congress on January 9. President-elect Bush has yet to decide what modifications to the budget proposals need to be made. I would think it likely that he will have to make such decisions prior to the report of the Commission.

The President-elect has, as required by law, made two appointments to the National Economic Commission. He chose two very highly regarded individuals who are both well acquainted with budget issues: former Representative Thomas Ashley, Democrat, and former Senator Paul Laxalt, Republican. I anticipate that the President-elect and the OMB Director will consult with the Commission. We will welcome any constructive ideas and help they have to offer.

Ultimately, however, the President and the Congress must come to agreement on a budget. President-elect Bush intends to work directly with Congress to develop a responsible budget for the Federal Government.

Question 29. President-elect Bush is required by law to nominate two additional members to the National Economic Commission.

(a) In your opinion, what qualifications should the candidates for these two positions have?

(b) Will you, as the nominee for Director of OMB, advise the President on whom he should choose for these positions?

Answer. I have addressed this in my response to the last question. President-elect Bush now has made his selections, and the two individuals have excellent qualifications.

IV. BUDGETARY PROCESS

Question 1. Last month, a New York Times article reported: "The budget process itself has for various reasons switched from a 'bottom-up' to a 'top-down' approach—deciding on a total, and then how the total shall be allocated. It is widely agreed that the approach is dictated by the political agenda." To what extent do you agree?

Answer. Up until recently, the budget process was described at times as being "bottom-up"—that is, individual spending decisions were said to have been made without any overall constraint. This perception is not entirely accurate. In the past, every President set outlay and deficit targets as guidance for the preparation of his budget. Specific outlay targets were set for all the larger agencies. If, toward the end of the Executive Branch budget formulation process, it became clear that the outlay targets were being exceeded, a budget "ratchet" was occasionally used to bring outlays down to the target total. Both the initial ceiling-setting and the "ratchet" were, in fact, forms of "top-down" budgeting.

Once the President's budget was submitted to the Congress, it become the benchmark against which Congressional action was measured and was generally adhered to—in total if not in composition—in the initial round of appropriations. It provided less discipline in the case of supplemental appropriations and little or none for entitlement programs, for which funds are either provided or mandated outside the appropriations process. And, of course, when economic conditions were less favorable than those assumed in the President's budget, actual deficits exceeded projected deficits.

The Congressional Budget Act of 1974, which established for the first time a Congressional budget process, attempted to instill discipline on the Congress across the entire budget. While it was clearly an improvement over the loose process that existed before, it was not able to prevent huge peacetime deficits.

By late 1985, the deficit problem had become so bad and the public concern about it so vocal that the Congress added greater discipline by enacting the Balanced Budget and Emergency Deficit Control Act, commonly known as Gramm-Rudman-Hollings, or G-R-H. Under G-R-H, Congress is forced to offset requests for additional spending against existing commitments and previously-approved spending instead of just raising the deficit. Further, both Congress and the Executive are obliged to meet specified (declining) deficit levels or else face the additional discipline of sequestration.

The current process is described by some as "top-down" budgeting. In doing so, they imply that it is less desirable and more "political" than what they believe existed before. I do not agree. The current system tends to encourage a more comprehensive view than its predecessor, and it is neither more nor less political. It is a relatively sensible approach, in a complex and imperfect world dictated not by the political agenda but by economic realities, and it can help facilitate sound budgetary decisions and lasting economic growth.

Question 2. While you were Deputy Secretary of the Treasury in 1985, a New York Times article quoted you as saying: "The trick is to arrange a context in which several competing politicians can step forward together to simultaneously share what credit and blame there is for something that is going to be at least ambiguous." How might you apply this approach while Director of OMB?

Answer. This approach was reflected in the Social Security compromise of 1983 and the Budget Summit Agreement of 1987. I suspect that for FY '90 the process may best be more like the late '87 process. I think it has much to offer in a circumstance where there are inherent difficulties for all parties, and where constructive action is nonetheless called for. I'm confident that one way or another our political system will find its way to appropriate action in the end. It's preferable (but not absolutely essential) that this be through a process of orderly consensus-building rather than through the force of crisis.

Question 3. In late 1987, Congress and the Administration held a series of meetings to negotiate a federal budget agreement acceptable to both sides. For the most part, this agreement dictated the course of the budget process resulting in the fiscal year 1989 federal budget. Do you believe that a process of this sort will continue to be used to shape the federal budget?

Answer. The November 1987 Bipartisan Budget Agreement (attached) established an approach for deficit restraint in FY 1988 and FY 1989. The agreement helped to set overall spending priorities during that period and to maintain most of the $70 billion of deficit reduction achieved between 1986 and 1987. However, the primary achievement of the agreement was to keep the deficits from rising significantly. It did not reduce them. During the two years of the agreement deficits hovered at or above the $150 billion mark.

1986 actual	221.2
1987 actual	150.4
1988 actual	155.1
1989 Reagan estimate	161.5
1990 Reagan estimate	92.5

Notes.—Deficits in billions of dollars.

The Bush Administration's commitment will be to continue making steady progress in reducing the budget deficit through spending restraint, consistent with the targets established in the G-R-H law. We are ready to work with the Congress toward that goal. It is my personal belief that a process such as the 1987 budget Summit process could be helpful. But a decision on whether to use such a process will, of course, depend upon the preference of the incoming President and Congressional leadership.

SUMMIT AGREEMENT BETWEEN THE PRESIDENT AND THE JOINT LEADERSHIP OF CONGRESS, NOVEMBER 20, 1987

1. The elements of this agreement should provide for deficit reduction amounts that exceed the requirements of the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987 and thus when fully implemented eliminate the need for sequestration.

2. The package outline is approved by the President, the Speaker, and the Majority and Republican Leadership of Congress.

3. The President and the Leadership of Congress agree to carry out this agreement.

4. The President's FY 1989 budget shall comply with the appropriations levels in this agreement.

5. For FY 1988 Congress shall present reconciliation and the continuing resolution (or other appropriations legislation) to the President concurrently.

6. Congress shall provide sufficient budget authority to achieve full levels of domestic, international affairs, and defense outlays, in both FY 1988 and FY 1989.

7. Agreed upon discretionary spending levels are as follows:

[In billions of dollars]

Category	Fiscal year 1988		Fiscal year 1989	
	BA	0	BA	0
Domestic	145.1	160.3	148.1	169.2
International affairs (150)	17.8	16.5	18.1	16.1
Defense (050) [1]	292.0	285.4	299.5	294.0

Note.—The President and Leadership agree that, in implementing this agreement, essential programs serving the poor, including the elderly, should be a priority.

[1] Functional total includes mandatory spending.

8. Discretionary scorekeeping: Use CBO estimates with an agreed-upon list of discretionary accounts; no change in methodology from the current CBO-OMB understanding. CBO and OMB shall work together to resolve scoring methodology problems on mandatory accounts.

9. The following procedures will be utilized to implement this agreement for spending:

a. FY 1988—The agreement will provide ceilings for defense and non-defense domestic spending (including international affairs); the continuing resolution or other appropriations legislation will carry them out.

b. FY 1989—The FY 1988 reconciliation bill will specify:

i. agreed-upon defense and non-defense budget authority and outlay discretionary ceilings;

ii. the FY 1989 budget resolution, and committee 302(a) and (b) allocations pursuant thereto, shall be consistent with the agreement; and

iii. in the Senate, a three-fifths point of order will lie against a budget resolution that is inconsistent with the agreement.

c. Neither the Congress nor the President shall initiate supplementals except in the case of dire emergency. When the Executive Branch makes such a request, it shall be accompanied by a presidentially-transmitted budget amendment to Congress.

d. For FY 1988 in the Senate, before the continuing resolution (or other appropriations legislation) comes to the floor, a separate resolution will modify the relationship between reconciliation and defense spending, and adjust 3021(a) allocations and budget totals for 311 purposes to conform with the agreement. The leadership will seek a wavier of points of order under sections 302 and 311 for the FY 1988 continuing resolution if it conforms to this agreement.

10. The $9 billion in receipts in 1988 and the $14 billion in receipts in 1989 are gross figures and the ingredients composing these figures will be determined through the regular legislative process and conference agreement, subject to the President's signature or veto.

11. Pending the enactment of legislation to implement this agreement, the President shall take such action consistent with current law as may be necessary to reduce the effects of sequestration and provide for minimal disruption of on-going governmental programs and services during this interim period.

PROPOSED BUDGET COMPROMISE

	Fiscal year 1988	Fiscal year 1989
Revenues:		
Hard taxes	9.00	14.00
IRS compliance (net)	1.60	2.90
User fees	0.40	0.40
Subtotal, revenues	11.00	17.30
Spending:		
Defense (func. 050)	5.00	8.20
Non-defense discretionary	2.60	3.40
1989 effect of 1988 2 percent pay	0.00	2.40
Entitlements:		
Medicare	2.00	3.50
Farm price supports	0.90	1.60

PROPOSED BUDGET COMPROMISE—Continued

	Fiscal year 1988	Fiscal year 1989
GSL balances	0.25	0.00
Federal personnel	0.85	0.85
Subtotal, entitlements	4.00	5.95
Debt service	1.20	3.50
Subtotal, spending	12.80	23.45
Additional savings:		
PBGC premiums	0.40	0.40
VA origination fee extension	0.20	0.20
VA loan guarantee	0.80	1.00
Asset sales	5.00	3.50
Subtotal	6.40	5.10
Grand total	30.20	45.85

Question 4. There has been increasing discussion of a two-year federal budget process. In 1988, this Committee passed legislation establishing a biennial budget cycle. What is your view on instituting a two-year buget cycle?

Answer. I support biennial budgeting for the reasons President Reagan gave in his 1990 Budget Message—to minimize the time, energy, and confusion associated with completion of the budget process and to permit realization of savings that would be possible if agencies had greater certainty concerning the funds available to them.

It is my perception that support for biennial budgeting in the Congress is rising, but there is far from general acceptance of the idea.

The concerns of those who are reluctant to support biennial budgeting are real and must be dealt with openly and straightforwardly. They are worried that a biennial budget could not be completed on a timely basis. Under biennial budgeting, the Executive Branch and the Congress would have to commit to beginning early and working diligently to reach timely agreement on a two-year budget.

They are worried that the longer budget period would force the Congress to take compensating actions for a larger number of contingencies but increase the difficulty of doing so. Here again, they have to be assured that the Executive Branch and the Congress are committed to taking prompt actions to deal with the contingencies and, when necessary, finding offsetting actions to finance them. Biennial budgeting would certainly not be a positive development if control over supplemental appropriation bills were not rigorously maintained—and that, I suspect, would prove to be a serious problem.

They are worried that Congressional oversight will be diminished as a result of biennial budgeting. I do not believe that this need be so. Indeed, I would expect biennial budgeting to reduce the number of repetitive votes on budget issues but to provide more time for policy planning and oversight.

Question 5. Many charge that the current budget process is lengthly and combersome. What actions would you recommend as Director of OMB to streamline the process?

Answer. The budget decision process is a legislative process and, therefore, a political process in the best sense of the word. Like all political processes, there is a limit to which the budget decision process can—or should—be made efficient and still be consistent with the separation of powers principle of our Constitution, and our democratic interest in the fair representation of competing constituencies and values.

Because of the separation of powers principle, making the budget decision process more efficient requires finding a better way to achieve agreement between the President and the Congress on the broad outlines of the budget and for the Congress to develop revenue, authorization, and appropriations bills that are consistent with the agreed-upon outline. It is important, too, that this consistency be enforceable and enforced. This is precisely what the Bipartisan Budget Agreement of 1987 attempted to do and what the budget reform proposals in President Reagan's 1990 budget were designed to do.

Questions 6-8. What is the best measure of the Federal budget balance? Does this balance include the many Trust Funds within the budget?

What are your views on maintaining the unified budget? What is your position on the treatment of off-budget programs and trust funds?

What do you consider the proper budgetary treatment of the Social Security Trust Funds?

Answer. The framework for the current unified budget was established by the President's Commission on Budget Concepts in 1967. Their recommendation was based on the idea that single comprehensive reporting system covering all the activities of the Federal Government was the most useful way to present the Budget to decisionmakers and the public. This comprehensive budget included trust funds, lending activities, and capital expenditures as well as the operating expenses of the Federal Government, grants to State and local governments, and Federal transfer payments.

The principles of the Concepts Commission have held up well over the years since 1967, but questions do arise about the unified budget presentation, and a number of issues are under discussion today.

Currently the social security trust funds (the Federal old age and survivors and the Federal disability insurance trust funds) are excluded by law from the Budget, except under the calculations required by the G-R-H legislation. Some would recommend that other trust funds be removed from the Budget. Under current law the Federal Hospital Insurance Trust Fund (a large part of the Medicare program) is scheduled to join social security off-budget in 1993.

Some hold the view that the Federal government should modify the unified budget and adopt a capital budget.

A number of Government-Sponsored Enterprises act as financial intermediaries, primarily to direct capital to the housing, agriculture and higher education sectors of the economy. The degree of Federal participation in these activities varies, but all of them are excluded from the unified budget.

The Office of Management and Budget has been a consistent supporter of the Concepts Commission recommendations since the unified budget was first displayed in the 1969 Budget. Those recommendations also form the foundation for the Congressional budget process. The long history of the unified budget presentation and its continued successful use for both the Presidental and Congressional Budgets suggests that it is still relevant for today's budget decisionmaking. However, I plan to study some of the proposed changes currently under debate more thoroughly with a view toward advancing changes in budget presentation that have merit. I am particularly interested in exploring ways to make capital budgeting more useful—as a complement to, not a substitute for, the unified budget.

Question 9. In light of the recent defense procurement scandal, what actions, if any, do you plan to take as Director of OMB to provide for a vigorous, independent analysis of the defense budget?

Answer. If confirmed, I will ensure that OMB reviews the defense budget in a thorough, independent and vigorous manner. I would ensure that the Administrator of the Office of Federal Procurement Policy within OMB as well as the Associate Director for National Security and International Affairs are fully knowledgeable about defense procurement practices as they relate to the budget. The OFPP Reauthorization bill enacted last session provided OMB with substantial responsibilities in the area of procurement integrity. Moreover, we have to be especially careful when budget resources are especially limited, as they are now, that we get full value from our investment in defense. I propose that the OMB Associate Director for National Security and International Affairs will continue to be a member of the Defense Resources Board, the Pentagon committee chaired by the Secretary of Defense, that reviews defense programs.

Question 10. What is your position on developing and presenting a separate capital budget for the federal government?

Answer. While I was at the Treasury Department, the Reagan Administration performed a thorough analysis of instituting a separate capital budget for the Federal Government. They reviewed the private sector's use of seprate capital and operating budgets, and the various budgetary mechanisms employed by foreign, State, and local governments. They compared capital budget systems with the information and incentives provided by the current budgetary treatment of capital investments and long-term liabilities.

After a lengthy review, they decided not to propose a separate capital budget for the Federal Government, primarily for reasons of measurement and control:

Measurement.—It is extraordinarily difficult to measure long-term Federal commitments for capital expenditures or even to agree on the proper scope of a capital budget. Extensive problems exist in determining how to account for grants to State and local governments for capital purchases, which Federal expenditures for health or education programs to include as capital expenditures, and how to treat defense programs. It is also difficult to measure accurately the use of many capital investments and, therefore, to record properly the cost of the consumption of these goods (i.e., their depreciation) in the operating budget. Moreover, most of the benefits derived from Federal capital expenditures accrue to the Government only through improvement in the long-term health of the country. A capital budgeting system cannot function property unless it can measure relatively accurately these aspects of long-term investment. It is my understanding that, for these and other reasons, no other federal government in the world has a capital budget.

Control.—If a capital budgeting system were used instead of the existing budgeting system, it would undoubtedly lead to a diminishment of control over Federal spending, relative to the current system. Because capital expenditures would be, in essence, free goods relative to operating expenditures (that is, not constrained by adding to the deficit or the need to be financed by taxes), program advocates would attempt to have the spending for their programs classified as capital investment. Without the constraints of the unified budget, pressures for expansion of these programs would be inevitable.

For these reasons, I wish to explore the possibility of making greater use of capital budgets as a complement to the existing system, not a substitute for it.

Question 11. Please describe the steps that OMB will take under your leadership to prepare economic assumptions and projections of future spending.

Answer. Considerable time, care and analysis is devoted to preparing the budget's estimate of receipts and outlays. Under existing procedures, the economic assumptions are prepared by the Administration through an interagency "Troika" process involving OMB, the Council of Economic Advisors, and the Treasury Deaprtment. Initially, a set of economic assumptions is formulated by senior career staff, and subsequently reviewed and modified at the Assistant Director/Secretary level, and finally by Cabinet officials and the President. I have no reason at this point to believe this process should or would be changed.

Spending projections are made by OMB after careful consultation with individual agencies. A current services level of outlays is formulated. A set of policy proposals are then made, based on decisions by the OMB Director and the results of any appeals of those decisions to the President. Preparation of the budget begins more than a year before the fiscal year begins, with the major policy decisions occurring in the fall before the President submits his budget in January.

Question 12. In 1987, a study co-authored by Richard Veddar, Lowell Gallaway, and Christopher Frenze stated that for every additional dollar in Federal tax collection, the Federal government spent $1.58. Some have suggested that any new taxes be used solely for reducing the Federal deficit and not for new Federal spending. Is there any mechanism that you can devise which would ensure that any new revenue be devoted to deficit reduction?

Answer. I do not now know of any absolutely fool-proof mechanism that would ensure that new revenues be devoted solely to deficit reduction. The general form of any such scheme would seem to have to include both a separate debt-reduction trust fund and a deficit-cap-enforcement-measure that were tougher to amend than G-R-H.

With regard to the report cited in the question, it is my understanding that: Richard Vedder, Lowell Gallaway, and Christopher Frenze (VGF) tested the hypothesis of whether higher tax receipts increase Federal spending in a paper written for Senator Roth in 1987. They estimated a regression equation in which the Federal deficit (as a percentage of GNP) was regressed on receipts as a percentage of GNP) and other variables that might affect the deficit. They concluded not only that higher receipts increased spending, but that the effect was so strong that the increase in outlays was more than the increase in receipts. Thus, the higher receipts increased the deficit. An increase in receipts of $1.00 raised outlays by $1.58 and the deficit by $0.58.

But, I have also been led to understand that: their statistical analysis combines higher receipts due to legislation and higher receipts due to economic growth and inflation; their equation implies that the higher receipts generated by an economic expansion also cannot reduce the deficit; and that higher receipts from an expanding economy would increase the deficit.

OMB and CBO staff independently analyzed the VGF study, and CBO wrote a staff working paper in response to a request from Congressman Gray. Both staffs concluded that the study was not persuasive. Three reasons are given below.

First, the VGF result did not hold up when relatively minor and quite reasonable changes were made to the way in which the regression equation was specified. This is a normal method for economists to test the reliability of a regression equation. OMB and CBO staff both found that the results could easily be altered by using a different estimation technique or a different time period. This result does not imply that the alternative equations are correct, or that any of the others estimated by OMB or CBO are. Rather, the diversity implies that all of these equations are doubtful.

Second, VGF's method assumes that the response of outlays to receipts is the same regardless of the reason for the change in receipts. For the purpose of concern over the deficit, it would be most instructive to examine the effect of legislated increases in general fund taxes, especially the income tax. However, the income tax was significantly increased only three times in the years that VGF cover: at the beginning of the Korean War, temporarily in the latter part of the Vietnam War, and in 1982 and 1984. (Moreover, the first increase was caused by the plan for higher defense spending; and the last only partly offset the reductions from the 1981 legislation.) Thus, there is little evidence about what happens to outlays when Congress increases the income tax. Changes in income tax receipts have instead mostly resulted from automatic increases due to growth and inflation and from legislated decreases.

At the same time, primarily due to new legislation, social insurance taxes and contributions grew from 1.5 percent of GNP in 1947 to 6.8 percent in 1986. These taxes are earmarked to finance specific spending programs, such as social security. The additional receipts and the subsequent additional outlays are generally determined together. For the most part, one has not caused the other.

Third, VGF's method assumes that political behavior remains about the same regardless of changes in leadership and other circumstances. This is questionable. President Truman promptly responded to the Korean War by raising taxes and restraining nondefense outlays; President Johnson at first responded to the Vietnam War by continuing to cut income taxes, by cuting excise taxes, and by expanding nondefense outlays. The leadership of President Reagan and recent peacetime deficits may have altered the response of spending to tax changes. Future actions to reduce outlays or raise taxes, therefore, may have different effects than could be predicted from the behavior of earlier leaders facing other circumstances.

Others have tested the relationship between receipts and outlays to try to find out whether causality was in one direction or the other. Their results differ. Only one adjusted receipts and outlays for cyclical effects, and it did not find any systematic relationship in either direction at the overall level. Higher taxes may cause some additional spending under certain circumstances, but there is, to my knowledge, no definitive evidence of a systematic causal relationship. There is only the common sense political impression: If a representative democratic system has more money to spend—or expects to have more to spend—it will probably spend it.

Question 13. The 1974 Budget Act divided Presidential impoundment authority into two categories: rescissions and deferrals. In addition, authority previously derived from the 1921 Antideficiency Act allowed the President to accumulate budgetary reserves as so-called management deferrals. While the 1974 law granted the President the rescission and deferral authority, it was contingent upon congressional approval. However, the Supreme Court ruled the one House congressional veto unconstitutional, thus invalidating the deferral mechanism. Would you support an amendment to the 1974 Budget Act to re-invigorate this law?

Answer. Yes.

The 1974 Impoundment Control Act provided a statutory procedure for reporting and seeking congressional concurrence in impounding funds. In the case of rescissions, that procedure allows funds to be cancelled permanently only where Congress enacts legislation to do so within 45 days of the Administration's request.

The 1974 Act permitted funds to be withheld temporarily unless one House of Congress voted to overturn the withholding. Funds could be withheld for policy reasons or for efficiency or management reasons.

In 1983, the Supreme Court in *INS* v. *Chadha* invalidated the one-House veto, thus casting doubt on its continued use as authorized by the Impoundment Control Act of 1974. From at least that point until early 1987, Congress had in fact not used the one-House veto mechanism to overturn deferrals, but routinely had included language in appropriations bills, subject to full legislation action, to overturn such deferrals. In a case entitled *City of New Haven* v. *United States*, the District of Columbia Court of Appeals ruled first that the one-House veto provision in the 1974 Act is unconstitutional under the *Chadha* holding, and second that, because that provision was integral to the grant of statutory deferral authority in the 1974 Act—

that is, without the veto mechanism, Congress would not have enacted the deferral provision—the entire provision, and not just the veto mechanism, was invalid.

Subsequent to the *New Haven* case, Congress amended the 1974 Act to permit deferrals in limited circumstances, but without a one-House veto mechanism. Specifically, in the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987 (Public Law 100-119, Section 206(b)), Congress provided that deferrals "shall be permissible only—

"(1) to provide for contingencies;

"(2) to achieve savings made possible by or through changes in requirements or greater efficiency of operations; or

"(3) as specifically provided by law."

The combined effect of these changes since 1983 is that deferrals may be used for efficiency or management reasons only. The loss of deferral authority is one aspect of a more general trend to circumscribe the President's authority to execute the budget laws in an efficient manner and be responsive to changing needs. A certain amount of flexibility to respond to changes is desirable, especially since the budget preparation process—both the Executive and congressional aspects—begins so far in advance of the budget year.

Therefore, proposals to expand the Executive's flexibility in responding to changes, and especially the need for fiscal restraint and to balance competing demands for scarce resources, are desirable.

Question 14. President Reagan's FY 1989 Budget recommended a number of changes in the Budget Act, including (a) the establishment of a Joint Budget Resolution, (b) individual transmittal of appropriations bills, (c) strict observance of budget allocations, (d) enhanced rescission authority, (e) biennial budgeting, (f) truth in Federal spending, (g) a Constitutional amendment to balance the Federal budget, and (h) line-item veto authority. Would you comment on each of these proposals?

Answer. The primary purpose of the budgetary process changes proposed by President Reagan was to facilitate agreement between the President and the Congress on budget totals and priorities within the totals. Taking them in turn:

(a) Joint budget resolution.—This proposal is probably the one that is most directly related to achieving agreement. Currently, Congressional budget resolutions—which are the proposed budgets of Congress—are not sent to the President for approval. Consequently, the President's budget and the Congressional budget remain apart throughout the legislative process on the budget, and issues are joined only when revenue, authorization, and appropriations bills are taken up by Congress and, later, submitted to the President for approval or veto. As experience with the Bipartisan Budget Agreement of 1987 attests, prior agreement between the President and the Congress on at least the broad outlines of the budget would establish clear guidelines for the legislation that follows. President Reagan's proposal that the Congressional budget resolution be submitted to the President for approval or veto would induce agreement on the broad outlines at an early stage in the process.

(b) Individual transmittal of appropriation bills.—As President Reagan noted last year, full-year continuing resolutions covering numerous appropriations bills limit the scrutiny that both the Legislative and the Executive Branches can exercise over Federal spending. Worse, they make it far easier for special-interest add-ons to be hidden. He proposed requiring that appropriations bills be transmitted individually to the President to ensure that greater scrutiny can be exercised. My own view is that the important thing is that the appropriations bills be transmitted, rather than governed by continuing resolution—and that they be collectively and individually consistent with a pre-agreed, comprehensive budget plan.

(c) Strict observance of allocations.—In the past, allocations of the Congressional budget resolution to functions have been disregarded in the appropriations bills. Generally, funds allocated to defense and international programs were reduced and the "savings" used to finance increases in other areas. Because of the importance of providing adequately for our national security, President Reagan proposed that separate national security and domestic program allocations be made and enforced through a point of order provision in the Congressional Budget Act.

(d) Enhanced rescission authority.—Under the Impoundment Control Act, the President may propose that previously provided funds be rescinded and withhold the funds from obligation until Congress acts on the proposal. However, both Houses of Congress must pass the necessary legislation for the proposed rescission to take effect. If no action is taken within 45 days, the funds at issue must be made available for obligation. Regardless of the merit of the President's proposed recissions, it has been easy for Congress to do nothing for 45 days and force release of the funds. President Reagan proposed that the Congress be required to vote "up or down" on any presidentialy-proposed rescission to force consideration of the proposal on its merits. In a period when every opportunity to reduce the deficit deserves to be considered seriously, such a proposal seems to me to make sense.

(e) Biennial budgeting.—President Reagan called upon the Congress to adopt biennial budgeting to reduce repetitive annual budget tasks, to provide more time for consideration of key spending decisions in reconciliation, and to minimize the scope for budget gimmicks such as achieving alleged savings by shifting spending from one year to another. There are other justifications for the proposal, specifically, to minimize the time, energy, and confusion associated with completion of the budget process and to permit realization of savings from efficiencies that would be possible with a more assured availability of funds. There are pitfalls to be watched for in biennial budgeting, but some of its advantages were seen in the Bipartisan Budgeting Agreement of 1987, which covered the fiscal year 1988 and 1989 budgets.

(f) Truth in Federal spending.—The truth in Federal spending legislation would require any future legislation creating new Federal programs to be deficit-neutral. In addition to requiring the concurrent enactment of equal amounts of program reduction or revenue increases, the proposal would require that all future legislation and regulations be accompanied by financial impact statements, including the effect on State and local governments. This proposal is consistent with the objective of deficit reduction, since it would prevent new programs from causing outlays to grow faster than revenues. It also supports the objective of restraining the natural tendencies toward the growth of government.

(g) Balanced budget amendment.—President Reagan proposed two constitutional amendments, one mandating a balanced budget and the other requiring a super majority vote in the Congress to increase taxes. In combination, these amendments would impose effective restraint on Federal spending and discipline on the budget process. These are the reasons the concept of the balanced budget was supported in the early days of our nation.

(h) Line-item veto.—President Reagan asked for line-item veto authority to permit future Presidents to reach into appropriations bills, cut our special-interest add-ons, and enforce budget discipline. This authority would, of course, be subject to Congressional override. At present, 43 governors have line-item veto or reduction authority, which provides an additional tool in the pursuit of budget discipline.

Question 15. President Reagan has recommended that a number of Federal government entities, including the Alaska Power Administration, be privatized. What is your view of privatization?

Answer. I support the concept of privatization—defined as the transfer of government services, assets and/or enterprises to private sector owners and suppliers—when it will lead to better services at the same or lower costs. Our Government is already burdened with an enormous number of objectives and responsibilities and its management capabilities are thinly spread across thousands of diverse product lines. As a result, levels of quality and efficiency are not always what they should be.

Whenever reliance on the skills and resources of the private sector can improve services and costs in what are essentially commercial functions being performed by Government, then I think we should take advantage of that opportunity, as well as the added benefit that such acts of privatization may contribute toward reducing the deficit.

Let me make it clear that my definition of privatization does not imply the abrogation of Government responsibility for any of these services. Government would continue to set the guidelines and closely monitor the performance of the contractor. What should be of primary concern here is the quality and cost of the service provided—including the costs of regulation, monitoring, and oversight—not who provides the service.

V. MANAGEMENT REFORM AND IMPROVEMENT

Question 1. The 1970 reorganization of the Bureau of the Budget retitled the agency—the Office of Management and Budget. A stated purpose of the reorganization was to establish that the "management" functions, which had evolved since the Budget and Accounting Act of 1921, were put on a par with budgetary functions. The general view is that this purpose has not been fulfilled.

Please provide the Committee with your personal view as to what the management functions of OMB ought to be and the priority you believe the Director of OMB should give them.

Answer. The President's message accompanying the 1970 reorganization Executive Order stated, in part, that "(t)he new Office of Management and Budget will place much greater emphasis on the (1) evaluation of program performance; (2) on assessing the extent to which programs are actually achieving their intended results, and delivering the intended services to the intended recipients; (3) improvement of Government organization; (4) information; and (5) management systems will be a major function of the OMB."

An objective assessment of results over the past 18 years would indicate that the record is mixed. OMB has a record of accomplishment in improving the use of information technology to deliver better service to the public, in helping to implement modern government-wide cash management and credit management systems and in leading a massive upgrade and consolidation of financial management systems.

However, more attention needs to be directed to improving strategic planning, major program implementation and program evaluation as an aid to the Executive Branch and Congress in planning, monitoring and assessing program results and future program needs.

Question 2. Since 1970, this committee has proposed and Congress has approved legislation creating the positions of Deputy Director of OMB and the Administrators of the Offices of Federal Procurement Policy and Information and Regulatory Affairs. These posts are filled by the President and require Senate confirmation.

What role do you anticipate playing, if confirmed as Director of OMB, in the selection of individuals for these positions?

Answer. If I am confirmed, my role will be to recommend to the President the names of individuals who are experienced, dedicated to public service, and well qualified to serve as representatives of the President as well as OMB. As members of the senior management team at OMB, the Administrators for these two positions will play a crucial role in carrying out the agency's mission—in particular, OMB's statutory responsibilities over procurement and regulatory issues. Therefore, I would place great importance on identifying the names of suitable men or women to recommend for the President to nominate for these positions. The decision on such recommendations would, of course, be the President's—subject to the advice and consent of the Senate.

Question 3. What role do you anticipate playing in the selection of individuals to appointive positions in OMB which are not subject to Senate confirmation?

Answer. If I am confirmed as Director of OMB, selecting the members of my senior staff will be an important personal responsibility. Accordingly, I would anticipate being actively involved in assuring that all of the individuals appointed to senior positions at OMB are eminently capable and reliable. The qualifications of political appointees will, of course, be subject to White House review.

Question 4. What do you see as the most significant management problems facing Government today, and what should be OMB's role in addressing these problems?

Answer. There are a variety of problems or "opportunities" facing government today and it is my understanding that OMB is currently helping to plan what needs to be done about them. While OMB's specific role in each of these could vary, OMB should provide leadership in establishing priorities, assuring that governmentwide coordination takes place and assuring that resources are provided where and as needed. Some of the problems that OMB is currently assessing include:

With changing life styles, more persons working, the increase in the number of elderly, etc., the demand by the public for more accurate, timely, inexpensive and convenient services from government agencies is increasing. Yet, too many government operations are slow, inconvenient, and inefficient by private sector service standards. A change in service delivery is possible through better use of information technology, undertaking improvements in the quality of services delivered by agencies such as the IRS and Social Security Administration, and being willing to challenge time honored ways.

Improvements in the internal operations of the government in cash management, credit reform, credit management and financial management systems have resulted from Reform '88. Continuing to upgrade these systems will provide better management information, will integrate budget and accounting data and will improve loan servicing.

It is important to implement long-term planning for Government budgeting and operations that can counter-balance the narrow perspective imposed by the annual budget process and the tendency to plan and approve programs on an incremental basis.

Obviously, there are many more problems, such as DoD procurement reform (to cite one that is topical). I have not yet settled in my own mind which of the many candidates should be treated as most important.

Question 5a. How do you view OMB's role in legislative clearance?

Answer. OMB's legislative clearance role serves several important purposes, assisting not only the President but also the executive agencies and Congress.

For the President, it provides a means for developing agency legislative proposals for inclusion in his legislative program. It also ensures that bills, testimony, and reports of agencies are consistent with and correctly state the President's policy objectives. With respect to legislation presented by Congress to the President for approval or disapproval, it permits a full and balanced presentation of the views and recommendations of all concerned agencies.

For the Congress, the legislative clearance process is a means by which Committees and individual Members can be informed of which bills are part of the President's program and of the relationship of other bills to that program. It also ensures that Congress gets coordinated Administration views on legislation that it has under consideration.

For the agencies, it assures that positions on legislation that are submitted to Congress by one agency in the form of draft bills, testimony, or reports properly take into account the interests and concerns of other affected agencies. It also provides for an effective way to reconcile divergent agency views.

Are you considering any changes in OMB's structure or approach in this area? I am not aware of the need to make any changes.

Question 5b. How do you view OMB's role in personnel and human resource management?

Answer. OMB has traditional budget oversight responsibilities for those agencies that are heavily involved in pay, benefit, and other personnel management functions. These include the Office of Personnel Management (OPM), the Merit Systems Protection Board, the Federal Labor Relations Authority, as well as the Federal Thrift Investment Board.

Apart from budget and legislative oversight, OMB has special responsibilities in the area of Federal pay. By law, the heads of OPM, Labor, and OMB serve as the President's pay agent in reviewing annual pay adjustments for Federal civilian employees. OMB has also had responsibilities in reviewing the need for special pay allowances that fall outside OPM's normal responsibilities.

Finally, OMB has a management role in making sure that the various parts of the personnel system operate efficiently. For example, I understand that OMB has recently been working to speed up the processing of retirement applications in the agencies and OPM. OMB has also been working with OPM in finding cost-effective ways to eliminate unnecessary delays in hiring.

Each of these areas is undergoing significant change, particularly Federal pay and health benefits. I look forward to further progress in OMB's personnel management and pay role, and to further efficiencies and improvements in these functions.

Question 5c. How do you view OMB's role in procurement policy? Are you considering any changes in OMB's structure or approach to these areas?

Answer. OMB, working through its Office of Federal Procurement Policy (OFPP), has an important role in procurement reform. OFPP's main responsibility is to provide "overall direction of procurement policies, regulations, procedures, and forms for executive agencies in accordance with applicable laws" (OFPP Act, 41 U.S.C. 402). Developing Government-wide procurement policies; reviewing all proposed procurement regulations for uniformity and simplicity and coordinating Executive Branch positions on procurement legislation are some of the key duties of the office. OFPP also works closely with other parts of OMB, since so many procurement policy issues (e.g. prompt pay, multi-year contracting, technology transfer, regulatory reform) are cross-cutting and cannot be dealt with solely from a procurement perspective.

I have not yet had an opportunity to assess OFPP's role and performance fully. It would, therefore, be premature for me to be planning any structural changes at this time with regard to OMB's and OFPP's procurement policy role.

Question 5d. How do you view OMB's role in information policy and clearance of agency information requests of the public?

Answer. OMB's role in information policy and clearance of agency information requests of the public is to assure that agencies have both the information and technology needed to discharge their statutory responsibilities and that, in acquiring that information and technology, they not impose unwarranted burdens (as economic costs or invasions of privacy) on the public. OMB discharges that role by selectively reviewing major agency proposals and, where warranted, providing general policy guidance.

Question 5e. How do you review OMB's role in regulatory review?

Answer. OMB's role in regulatory review is now carried out by the Office of Information and Regulatory Affairs (OIRA). That review is currently governed by Executive Order No. 12291, which requires that, to the extent permitted by law, agencies adhere to certain regulatory principles, such that administrative actions shall be based on adequate information concerning the need for and consequences of the proposed action and regulatory objectives shall be chosen to maximize net benefits to society.

In addition, in 1983 the Presidential Task Force on Regulatory Relief issued ten regulatory guidelines which were endorsed by President Reagan in Executive Order No. 12498. These regulatory guidelines offer advice to agencies regarding the most frequently encountered issues in Federal regulation.

Within this framework, the guiding principles for implementation of these policies for OIRA should include pursuit of coherent, rational execution of laws across the government, thus adding a government-wide perspective to an agency's natural tendency to view its own particular programs in isolation. OIRA should ask the hard questions, uncover the submerged issues, and assure that issues and alternatives are surfaced so that the public has meaningful opportunity to comment when the proposed rule is published in the Federal Register. In addition, OIRA should ensure that the concerns and actions of one agency that might affect other agencies and Administration policies and priorities, become known to those other agencies and the Administration, so that coordination and consistency within the government can be enhanced.

Question 5f. How do you view OMB's role in financial management?

Answer. OMB assists the President in the budget process and in helping to set his management agenda. Thus, OMB has a key policy formulation role in such areas as credit, cash management, financial management, prompt pay, and internal controls. This policy role is exercised through the President's Budget, circulars, bulletins, and memoranda to cabinet agencies. In addition, OMB sets long range priorities in the financial management area and oversees agency compliance with policies and directives. The budget review process as well as the OMB management reviews are valuable in conducting this role.

Question 5g. How do you view OMB's role in intergovernmental affairs?

Answer. I understand that OMB is involved in the intergovernmental review process by assisting Federal agencies in their interaction with state and local governments regarding all federal assistance programs, grants and awards. This review process is set out in Executive Order 12372. I believe that OMB, working together with the White House and the agencies should continue to play a helpful role in ensuring proper coordination.

Question 5h. How do you view OMB's role in grants management? Are you considering any changes in OMB's structure or approach to these areas?

Answer. There are over 500 Federal grant programs spending over $130 billion and administered through 28 Federal agencies. OMB must exercise strong oversight, ensure the program is managed on a business-like basis, fraud and abuse are prevented, and regulations and paperwork are streamlined.

OMB has recently begun overseeing agency use of government-wide "common rules" to achieve these objectives. Common rules are relatively new and permit the development and implementation of consistent government-wide policy.

For example, in 1986 a government-wide "common rule" prescribed fiscal and administrative requirements for State and local governments that were consistent with regulatory relief, and business-like management.

Twenty-eight Federal agencies have recently proposed a similar "common rule" to streamline requirements for grants to universities, hospitals, nonprofit and commercial organizations.

I am not now aware of any reason to change OMB's current structure and attention to grants management.

Question 5i. How do you view OMB's role in government reorganization?

Answer. Although OMB does not have a specific division to handle reorganization issues, it has the staff capability for organization planning. An important responsibility of OMB is to review ideas for improved organization of the executive branch. This is done routinely as part of the budget process.

While individual agencies undertake internal organization changes, OMB is in the best position to coordinate organization changes involving several agencies. This interagency coordination role assists in resolving disputes and objectively assessing cross-cutting issues.

Question 5j. How do you view OMB's role in fraud, waste and abuse? Are you considering any changes in OMB's structure or approach to these areas?

Answer. OMB has a significant role in combating fraud, waste and abuse in Government programs. Its recent efforts have been twofold:

First, OMB coordinates Government-wide detection of weaknesses in financial and program systems under the Federal Managers' Financial Integrity Act (FMFIA). In the past six years, annual internal control reviews have been conducted by agencies to determine whether appropriate safeguards are in place and being followed. The head of each Federal agency must certify annually to the President and the Congress whether agency programs and systems meet accepted standards. More than 2,000 material weaknesses have been identified and reported. To date, almost three quarters of these have been corrected.

Second, the OMB Deputy Director chairs the President's Council on Integrity and Efficiency (PCIE), whose membership includes all the statutory Inspectors General. The Council was established to coordinate government-wide efforts to combat waste, fraud and abuse and support the individual IG efforts. The Council has been very active in the past eight years and I believe that OMB should continue to support the IG community through the Council's work.

Question 6. The Reform '88 management project was initiated in the first term of President Reagan. What is the status of this effort? Do you anticipate any follow-up to this project during your tenure as OMB Director?

Answer. The Reagan Administration found uncontrolled growth in the Government's credit portfolio, no effective system for managing a $2 trillion annual cash flow, almost 400 obsolete or incompatible financial accounting systems, and no government-wide emphasis on improving productivity and quality in delivering service to the public.

Reform 1988 is a comprehensive program that is addressing these problems. Today, there is a more modern cash management system that saves the Government almost $1 billion annually in interest costs. There is an improved credit management program that is screening credit applicants, servicing loans efficiently and reducing delinquencies. A government-wide financial accounting structure should be implemented by 1990 in all civilian agencies and in DoD by 1992. A government-wide quality improvement progress is underway and said to be achieving success.

Despite the substantial progress to date, work needs to be completed as scheduled in upgrading the financial systems, improving productivity, integrating budget and accounting systems, and improving loan account servicing. It is my current view that this work should continue to go forward.

Question 7. Do you have any plans to reorganize the Office of Management and Budget? If so, what type of changes would be made?

Answer. At this stage, I do not yet have any significant organizational changes to recommend or impose (if confirmed).

Question 8. During the 100th Congress, this Committee reported and Congress passed without dissent the Whistleblower Protection Bill. Acting OMB Director Joe Wright served as the Administration's liaison with Congress on that bill. As you know, the President vetoed this legislation despite Mr. Wright's assurances that the Administration would support the bill.

Will you, as OMB Director, be representing the Bush Administration on Whistleblower Protection legislation that will be considered in the next Congress?

If you serve as the Administration's representative, who will be given the authority to work with Congress on this legislation to represent the Administration's position?

Answer. OMB has general clearance and coordination responsibility for communications between the Administration and Congress on legislative proposals. If confirmed, I expect that the Director of OMB will continue to play the leading role on behalf of the President in coordinating Administration positions generally on legislative proposals.

In regard to this specific matter, I have not discussed with the President-elect how he wishes to proceed on the subject of Whistleblower Protection legislation. I am aware, however, that President Reagan has submitted to this Congress new Whistleblower Protection legislation that was developed by the Attorney General, working together with the Directors of the Office of Management and Budget and the Office of Personnel Management. If confirmed, I will strive to assure that the Bush Administration's communications with Congress on this matter are coordinated among the agencies and fully reflect the President-elect's policy. I do not yet know whether I or my Deputy (yet to be nominated or announced) will have the lead within OMB on this issue. (I am inclined to think the responsibility ought to rest with the Deputy if the Deputy continues to chair the President's Council on Integrity and Efficiency.)

Question 9. OMB's Career Staff, in the past, has been characterized as providing "neutral competency" in its advice to the President. However, largely as a result of former Director Stockman's approach, there are some who maintain that OMB is now perceived as more of an ideological advocate than a source of neutral analysis. What are your views on this perception? Will you undertake any actions to ensure that OMB's reputation for neutral competence be maintained at all levels?

Answer. It is imperative that the President receive the most competent advice possible from his staff at OMB. While I am aware that some have raised an issue about the alleged "politicization" of OMB, I am also aware of the much more pervasive perception—accurate in my experience—that OMB is one of the most competent agencies in town. If confirmed, I intend to ensure that the competence of OMB staff is maintained at the extremely high level necessary to serve the President as effectively as possible.

As Director, I would satisfy myself that OMB's analyses are as accurate, toughmined, and as objective as possible (within the inherent constraints of operating in policy areas where much is uncertain and time demands are always enormous). At the same time, I would expect to advise the President on policy matters and advocate the policies and priorities he has chosen. In my view, however, proper advice and effective advocacy cannot be based on erroneous or biased assumptions; I will seek to ensure that this does not occur.

Question 10. One recommendation made to restore a perception for "neutral competence" to OMB is to reduce the number of political appointment positions—particularly those at the Associate Director level and above—and replace them with career civil servants. What do you believe the impact of such a change would be, and would you favor such a shift?

Answer. The senior OMB officials, including the Associate Directors, hold significant policy-making responsibility. Moreover, as staff serving within the Executive Office of the President and carrying out policy coordination and review functions on behalf of the President, the senior OMB officials must exercise considerable discretion in coordinating Administration positions, supervising career analysts, and implementing Presidential priorities.

While I have not served at OMB before, and therefore have no direct knowledge at this point, it is my perception that there are not too many political appointments at OMB. OMB staff have responsibilities that require them to interact with senior-level political, appointees throughout the agencies. OMB career staff quite properly look to senior political appointees at OMB for their policy direction. Thus, reducing the number of political appointees could make the job of career officials more difficult in some ways.

OMB is fortunate in having what is generally recognized as an outstanding group of career civil servants. The key is to complement them with political appointees who are themselves professional—and who respect and effectively draw upon the professionalism of the career staff.

Question 11. Since 1970, the Congress, and in particular, the Senate Committee on Governmental Affairs has supported keeping the evolving management role of OMB linked to its budget role. The statutory assignment of procurement policy responsibilities to the Office of Federal Procurement Policy within OMB and of information and regulatory affairs responsibilities to the Office of Information and Regulatory Affairs within OMB are manifest examples of this view. So are the responsibilities assigned to OMB by the Intergovernmental Cooperation Act, the Grant and Cooperative Agreement Act, the Federal Managers Financial Integrity Act, the Debt Collection Act, the Prompt Payment Act, and the Single Audit Act. In addition, this Committee has supported the process of "management reviews" instituted by OMB leadership in the recent Administration.

There is a different point of view that recommends that the management roles of OMB should be separated out from the agency and placed in a high level "office of management." Given the natural tendencies of the budget process to drive the agency's priorities, and given OMB's poor performances of some management responsibilities, Congress is giving this option serious and increasing attention.

What are your views on this question of whether the management roles of OMB should be retained and linked to budget review or separated out and re-established in a separate office?

Answer. Although a separate office for Federal management might receive more support and resources than the management function is currently provided at OMB, I do not believe that a separate office would be as effective in producing management improvement. Thus, on balance, a separate office would not be a good idea despite its superficial appeal.

"Management" and "budget" should be linked intellectually. And, as a practical matter, I would note: the budget process in the Government, is the most effective way to ensure the sustained attention of agencies. A management agency without budget leverage would not be as successful in achieving management reform.

Question 12. Some public administration analysts have suggested there be periodic legislative authorization of appropriations to OMB, as well as to other agencies such as the General Services Administration and the Office of Personnel Management. The purpose behind such proposals is to provide regular evaluations of these agencies' performance and determine the need for any statutory changes to their charters. What are your views on this legislative approach, particularly as it woud relate to OMB's activities?

Answer. To date, this legislative approach has not been considered necessary in the case of OMB. Congress has ample opportunity to review OMB's performance when OMB seeks appropriations from Congress. OMB annually provides detailed information on the agency and its activities, and Congress has the opportunity to review these activities. There are, moreover, now four advice-and-consent positions within OMB (Director, Deputy Director, OFPP Administrator, and OIRA Administrator). Additionally, OMB frequently testifies on a wide variety of management and budgetary activities of the Executive Branch, and Congress has a full opportunity to question the OMB Director on these matters.

Because OMB is a management agency, not a program agency, its activities are not subject to year-to-year changes in program activity levels. OMB is a small agency with activities that are well known. Indeed, the experience of many years indicates that Congress has no difficulty in obtaining information about or reviewing OMB's activities. The last OMB statutory changes of significance were in 1970 (and before that, in 1939). The infrequency in the change in the charter of OMB demonstrates that annual authorizations are unnecessary.

Pursuant to Reorganization Plan No. 2 of 1970, the functions previously vested in the Director of OMB were transferred to the President. These functions were then delegated by the President to the OMB Director (E.O. 11541). Thus, OMB's primary functions are vested in the President and performed by OMB at the direction of the President. The OMB Director administers OMB "under the direction" of the President. Therefore, it has not been thought either necessary or appropriate to have periodic reauthorizations of OMB functions, which are largely those of the President delegated or assigned by him to the OMB Director.

In view of all of these considerations, I do not believe periodic authorizations are necessary.

Question 13. This Committee has taken the lead in establishing Inspectors General in most Federal agencies to prevent fraudulent and wasteful activities. Do you believe that OMB should have a role in coordinating the activities of the Inspectors General? If so, how would you intend to structure and accomplish this?

Answer. OMB has taken a very active role in supporting the Inspectors General (IGs) in the last ten years and, in my view, should continue doing so in the future. The principal mechanism for accomplishing this has been the President's Council on Integrity and Efficiency (PCIE). The Council was established in March 1981 by Executive Order 12301 (revised in January 1988 and reissued as E.O. 12625). The Deputy Director of OMB serves as the Chairman of the Council and its membership includes all statutory IGs.

The Executive Order provides the structure for continued OMB coordination and support of IG activities. This structure is in place and appears to be working effectively.

Question 14. During the Reagan Administration the Deputy Director of OMB has held the position of Chairman of the President's Council of Management Improvement (PCMI), whih is comprised mainly of the departmental assistant secretaries for management and administration.

(a) In your opinion, should these positions be held by career officials or political appointees?

(b) Will the PCMI be retained? If so, will the OMB Deputy Director continue to be its Chair?

Answer. (a) These positions are now being filled, I am advised, by both career and political appointees. It seems to me that more important than their appointment status is the need for these officials to have access to, and the support of, the Cabinet Secretaries they serve, and to be able to speak for and commit their agencies.

(b) Executive Order 12479 establishes the Deputy Director of OMB as the Chairman of the Council on behalf of the President.

The PCMI provides a useful inter-departmental coordination and communication device. If the PCMI did not exist, some other arrangement to promote coordination would almost certainly be established. That is what has happened in the past. Therefore, I do not now see any reason why the PCMI should not be continued.

In the early days of the first term of the Reagan Administratin, the management agenda focused on administrative management topics, i.e., publications, office space, administrative staffing levels, etc. The Assistant Secretaries for Management were the appropriate members of the PCMI because those items fell within their jurisdictions. More recently, as the management agenda has moved into program matters such as loan asset sales, the delivery of service to the public, credit reform, and the use of credit cards by the Government, the topics are falling outside the areas of responsibility of the Assistant Secretaries for Management. Thus, members of the group are not able to provide assistance on such matters and, importantly, are not able to speak for or commit their departments. Therefore, if confirmed, I would seriously consider a recent PCMI proposal that the membership be constituted of the Deputy Secretaries since they should be chief operating officers of their departments and should have responsibility for such matters.

Question 15. In the 100th Congress, this Committee worked on legislation to establish a high level Chief Financial Officer for the Executive Branch within the Department of Treasury. A purpose of this proposal was to bring about the standardization of accounting systems throughout the Federal agencies. The Administration's response was to assign chief financial responsibilities to the Associate Director for Management within OMB and commit to certain performance objectives.

(a) Do you believe this is a Government-wide management role that could be better performed in Treasury or do you believe the function should be kept in OMB?

(b) How do you evaluate the performance of OMB's Chief Financial Officer to date?

Answer. (a) I am aware of the extended debate on this subject. OMB assists the President in the budget process and in helping to set his management agenda. Thus, OMB has a key policy formulation role in such areas as credit, cash management, financial management, prompt pay, and internal controls. This policy role is exercised through the President's Budget, circulars, bulletins, and memoranda to cabinet agencies. In addition, OMB sets long range priorities in the financial management area and oversees agency compliance with policies and directives. The budget review process as well as the OMB management reviews are valuable in conducting this oversight role. A Chief Financial Officer within OMB participates in these activities and directly affects their outcome. A Chief Financial Officer outside of OMB would not have the opportunity to participate is such policy matters and, without the discipline of the budget process, would not have the ability to enforce compliance with policy.

Treasury has been and should continue to be a key partner of the CFO in leading the implementation of many financial reforms, i.e., the work they have done in improving cash management systems, overseeing implementation of credit management improvement and monitoring the financial systems upgrades. Despite their substantial contribution to date, Treasury cannot be expected to exercise OMB's policy formulation role and/or to enforce compliance with policy. Treasury has been and should continue to participate with OMB in the policy development role but I am opposed to having OMB give up policy responsibilities.

(b) The appointment of a Federal CFO in OMB was a useful step forward. It recognized the scope and nature of the job to be done, as well as the integral relationship between financial management and the Federal budget process. The broad financial management agenda that was already in place under Reform'88, has been advanced by the Federal CFO in OMB. I understand that the CFO has:

Emphasized the ongoing financial management initiatives for upgrading systems, internal controls, cash management, and credit management by devoting his time to these efforts.

Strengthened the oversight of agency efforts through personally directing over 60 financial management reviews with agencies.

Clarified financial management reponsibility in agencies through having agency CFOs appointed.

Overseen agency financial systems and information efforts that have installed the Standard General Ledger in 16 of the major agencies (committed to installation by 1990 for the others), established a primary financial system in 14 of the major agencies (committed to establishment by 1992 for the others), achieved overall compliance with the Federal Managers' Financial Integrity Act in all but two major agencies (committeed to compliance by 1991 for all), and established a model Federal payroll/personnel system.

Directed the development of Core Financial Systems Requirements that were jointly issued by GAO, OMB, and Treasury in January, 1988.

Personally participated in the last two budget cycles and ensured adequate resources were made available to agencies to meet their financial management goals.

Established a government-wide CFO Council with agency participation in reviewing such questions as financial reporting and staff development needs.

Though these achievements appear to be impressive, I believe that the next steps will be even more important. OMB plans to integrate improved financial management information into the budget process to allow better planning, better budget decisions, and better program oversight.

Question 16. Reorganizations of government agencies have costs. Would you agree that these should be treated as sunk costs?

Answer. Reorganizations have costs but not all of the costs are necessarily sunk costs. If the primary purpose of reorganization is to clarify reporting relationships, eliminate overlap in authority, focus more clearly on key priorities, or reduce the size and complexity of a field structure, costs will be incurred in implementing these types of changes as well as paying for staff dislocations. As the planned improvements take place, some portion of these costs should be recovered. These costs generally can be anticipated and used to determine whether the savings are sufficient to justify moving ahead.

However, occasionally, reorganizations, are undertaken to give increased emphasis to a program and provide it with increased public visibility without changing the way in which the business of an agency is being conducted. Costs will be incurred in these tyes of reorganizations as well but there is probably little prospect of recovering them.

The distinction, here, is really between reorganizations that increase efficiency and those that do not. In one obvious sense, of course, reorganization costs are "sunk" once incurred—in that they can rarely be recovered by undoing the reorganization.

Question 17. What is your view on reorganization of the federal agencies involved in technology policy, commercial promotion and economic development policy, and trade policy?

Answer. Under current law, these functions are performed by the following agencies:

TECHNOLOGY POLICY

The Office of Science and Technology Policy (OSTP), headed by the President's Science Advisor, plays a central role in formulating and coordinating technology policy through means including the interagency Federal Coordinating Council for Science, Engineering, and Technology. The Departments of Defense (DOD), Energy (DOE), Commerce (DOC), and NASA also play major roles in technology policy, particularly in the development and transfer of technology, because of their involvement with the private sector and foreign governments.

A Technology Administration was recently established within Commerce, headed by a new Under Secretary, to create a greater focus on these issues within DOC. There are other interagency mechanisms for the coordination of technology policy, e.g., Senior Interagency Working Group (Technology Transfer), and the Economic Policy Council Working Group on Research and Development.

COMMERCIAL PROMOTION AND ECONOMIC DEVELOPMENT POLICY

The Departments of Commerce, Agriculture, the Small Business Administration and the Export-Import Bank are involved in commercial promotion.

Programs to promote economic development include the Department of Housing and Urban Development's (HUD) Community Development Block Grant (CDBG) program and the recently enacted Enterprise Zone program, the Farmers Home Administration (FmHA) within the Department of Agriculture, and other programs for small and minority businesses and Indians. Furthermore, direct Federal funding for community and regional development is supplemented by several existing tax expenditures.

The Reagan Administration has proposed termination or repeal of duplicative Federal development assistance programs including those of DOC's Economic Development Administration (EDA), the Appalachian Regional Commission (ARC), the Tennessee Valley Authority (TVA), and HUD's Urban Development Action Grants (UDAG) and Rental Development Grants.

TRADE POLICY

Under the Trade Act of 1974, the Office of the U.S. Trade Representative (USTR) is charged with the lead in trade policy negotiations. Other agencies involved in international trade include State, Treasury, Commerce, Agriculture, and about five to ten others, depending on the issues. Numerous interagency fora exist for the coordination of trade policy.

Given this complex pattern, it is natural to yearn for some simplification. On the other hand, there is much in the present pattern that is defensible.

I have not yet given sufficient thought to the possibility of reorganization in this area. As a general matter, I have found reorganization efforts to be time-consuming, and rarely worth the investment of effort in the end. I am more inclined to concentrate on getting basic policies and priorities straight—and then relying on good people and effective coordinative mechanisms.

Question 18. In the 100th Congress, the Senate passed a bill to abolish the Nuclear Regulatory Commission (NRC) and establish a Nuclear Safety Agency headed by a single Administrator.

What is your view of this proposed change in the NRC's structure? If so, what do you think OMB's relationship to the restructured agency should be?

Answer. Last spring in hearings before the Senate Governmental Affairs Committee, the majority of NRC Commissioners themselves endorsed the idea of a single Administrator as the head of this agency. It is my understanding that a number of other experts have expressed support over the last several years for this type of change.

In the recent legislative proposal, the new agency would be a line organization with an administrator who served at the pleasure of the President, similar to the EPA Administrator. I can certainly see the virtues of that organizational approach. If that structure were enacted, the relationship between the agency and OMB should be the same as that of any similar Executive Branch agency. This is to say, OMB would review legislative, budgetary and regulatory proposals prior to submission to Congress and/or publication.

VI. THE PAPERWORK REDUCTION ACT, REGULATORY REFORM, AND THE OFFICE OF INFORMATION AND REGULATORY AFFAIRS

Question 1. What do you believe are the fundamental purposes of the Paperwork Reduction Act?

Answer. The Paperwork Reduction Act of 1980, as amended, is an ambitious attempt to control and manage the government's collection and use of information. Building on the Federal Reports Act of 1942, the Federal Records Act, the Brooks Act, Privacy Act, and related laws, it requires that OMB examine and improve the management of Federal information activities toward four ends:

To minimize the burden of Federal paperwork on the public (including individuals, businesses, and State and local government);

To minimize the cost and maximize the usefulness of information collected, maintained, and disseminated by the Federal government;

To coordinate and integrate Federal information policies, including ensuring the privacy and confidentiality of Federal information; and

To oversee the acquisition and use of information technology (computers and telecommunications) to assure that this important technology is used efficiently and in a manner that improves the operation of government.

The unifying theme of the Act is that information is a scarce resource. Requirements affecting the production or use of information have both benefits and costs. In reviewing collections of information submitted by agencies for OMB approval or disapproval under the Paperwork Reduction Act, OMB is supposed to assure that the benefits of collecting data outweigh the costs of obtaining and using it. In reviewing major information systems and proposed information technology investments as part of the fiscal budget process, OMB is charged with assuring that the Federal government exploits the potential of modern technology to improve governmental efficiency and responsiveness while not unduly intruding into the personal lives of Americans.

Question. 2a. What is your view of the OMB Director's responsibilities and authority under the Paperwork Reduction Act?

Answer. The authorities and responsibilities contained in the Paperwork Reduction Act are assigned to the OMB Director. The Act, however, requires that the OMB Director delegate these authorities to the Administrator of the Office of Information and Regulatory Affairs (OIRA), a component of OMB. Nonetheless, according to the Act, the OMB Director retains the overall responsibility for the proper administration of these functions.

Question 2b. What role should OMB play in reviewing Federal agency regulatory agendas?

Answer. There are two regulatory agendas for which OMB is responsible: (1) the Unified (semiannual) Agenda, and (2) the Regulatory Program (annual) agenda. The semiannual agenda of regulations published by Federal agencies in the Federal Register was initiated by President Carter in Executive order No. 12044 (March 23, 1978). In 1980, Congress mandated the semiannual publication of a regulatory flexibility agenda (5 U.S.C. 602), which was to contain much of the same information as the original semiannual agenda of regulations. In Executive Order No. 12291 (February 17, 1981), President Reagan moved to unify both the content and the format for this semiannual agenda. Since then, the OMB Director has issued, semiannually, a Bulletin instructing agencies how to prepare and publish what is now called the Unified Agenda of Federal Regulations. I am informed that the OMB role in reviewing these draft agency agendas has been largely technical, in order to assure compliance with the formatting and publication requirements set forth in the Bulletins.

The second regulatory agenda is the annual Regulatory program of the United States Government required by Executive Order No. 12498. The Executive Order requires agencies to submit a draft agenda of proposed regulatory activity for the coming year, which is reviewed and approved by OMB (OIRA). This process provides the Administration with an effective method for overseeing and coordinating upcoming agency regulatory actions to assure consistency with the applicable principles set forth in the Paperwork Reduction Act and with Administration policies and priorities.

Question 2c. What role should OMB play in approving specific regulatory actions?

Answer. OMB is involved with reviewing specific regulatory actions in two ways: (1) review of information collections under the Paperwork Reduction Act, and review of regulations under E.O. 12291. Under the provisions of the Paperwork Reduction Act relating to OMB approval or disapproval of draft agency collections of information, OMB does not approve specific regulatory actions as such. OMB does approve or disapprove collections of information set forth, contained in, or otherwise authorized by proposed and current agency rules. Although the applicable clearance procedures may vary, OMB's role is the same for collections of information contained in regulations as for other collections of information covered by the Paperwork Reduction Act.

Under Executive Order 12291, "Federal Regulation," agencies are required to ensure that their regulations meet, to the extent permitted by law, the principles set forth in the Order, including assuring that regulations are based on adequate information and that net benefits to society are maximized. The President assigned the Director of OMB responsibility for overseeing this Order and for reviewing draft agency regulations to make sure that they adhere to the regulatory principles in it; this responsibility was in turn assigned to the Administrator of OIRA. This review, as Executive Order 12291 makes clear, does not interfere with agency heads' legal responsibilities under statute, but, rather carries out the President's constitutional responsibilities to manage the Executive Branch of the Federal Government.

Question 3. One of the problems of OMB regulatory review and planning is that, while the process can serve to coordinate and rationalize regulatory policy implementation across the Executive Branch, it can also be used to redirect regulatory policy without regard to Congressional intent. How do you propose to assure that the latter does not occur while you are Director of OMB?

Answer. Clearly, in carrying out its responsibilities under E.O. 12291, OMB should not, and does not intend to act without regard to statutory intent. At the same time, statutes often leave specifics unaddressed, giving discretion to the Executive branch in administration of the law. It is then the responsibility of the appropriate agency to exercise the rulemaking discretion granted by Congress; it is the President's responsibility to ensure that the agency exercises its rulemaking authority lawfully and consistent with sound government policy and the regulatory principles articulated by the President and his Administration.

Oversight by OMB only occurs within the discretion allowed by applicable laws. Executive Order No. 12291 makes that clear, by stating that agencies are to adhere to the President's regulatory principles "to the extent permitted by law" (Section 2). OMB is authorized only "to the extent permitted by law" to take such actions as may be necessary to implement Executive Order No. 12498 (Section 4). I would, of course, intend to assure, to the best of my ability, that this condition were met. I am confident that if for some reason I were perceived to be failing in this respect, agency heads would bring their complaints to the President.

Question 4. Under current Executive Orders 12291 and 12498, OMB has the power to review discretionary duties expressly delegated to agency officials by Congress. To what extent do you feel this is justified and on what basis?

Answer. Under the Constitution, the President, as Chief Executive, is to manage the Executive branch; take care that the laws are faithfully executed; supervise and guide his appointees in the exercise of their executive functions; and require their written opinions on matters within the scope of their responsibilities. Congress often specifies in a statute the executive officer with responsibility for implementing by regulation a particular legislative policy, but this does not and cannot relieve the President of this constitutional duties, as sole head of the Executive branch, to oversee agency execution of Federal law. The American people hold the President accountable for the activities of Federal agencies; so does the Congress. If the President wishes to use OMB to help in the fulfillment of his overall Executive responsibilities, that seems to me to be his preroghative.

Question 5. Are you satisfied with the substance and effect of Executive Orders 12291 and 12498? Do you think these Orders need to be revised and if so, in what manner?

Answer. It is my understanding that Reagan Administration officials believe these Executive Orders have served President Reagan well. Agency regulatory activities are now thought to be better coordinated, and the Executive Office is better able to assure, as a general matter, that agency regulatory activities are consistent with underlying regulatory principles. I am sure that as the new Administration gains experience with these existing Orders we will want to review how well they work for us, and make such revisions as are needed. But I have not had enough direct experience with their operation to make a particular suggestion for improvement at this point.

Question 6. Do you envision the Bush Administration issuing its own executive order governing the management and review of agency regulations.

Answer. The previous answer responds to this question; it would be premature for me to speculate now as to whether any further Executive order would be necessary or desirable in this area.

Question 7. Do you anticipate there being a task force on regulatory relief in the Bush Administration? If so, who will be its chair?

Answer. E.O. 12291 provided that the OMB's regulatory oversight was, in a variety of ways, "subject to the direction of the [Presidential] Task Force [on Regulatory Relief]," a cabinet-level group appointed by President Reagan and chaired by Vice President Bush.

The President-elect has not yet decided whether to continue the Task Force or substitute some other body to carry out that function, or who he would appoint to be its members or chair.

Question 8. Do you have any plans to augment the responsibilities of the OIRA Administrator beyond its current authority derived from the Paperwork Reduction Act and Executive Orders 12291 and 12498?

Answer. I have no such plans at this time, but that issue will of course be affected by any review of the overall process.

Question 9. Given OMB's extensive powers to set the federal government's regulatory agenda under Executive Orders 12291 and 12498, what safeguards are necessary to insure the integrity and fairness of the decision-making process? To what extent should contacts between OMB, private parties, and agency official be made public through logging and disclosure requirements for oral and written comments?

Answer. On June 13, 1986, the then Administrator of the Office of Information and Regulatory Affairs (OIRA) in OMB issued detailed procedures concerning OIRA reviews under Executive Order Nos. 12291 and 12498 designed to assure integrity and fairness in the decision-making process. (The procedures have been published as Appendix III of the 1987 Regulatory Program of the United States Government.) These procedures describe in detail the legal principles applicable to OIRA review, OIRA records maintenance, the documents related to OIRA regulatory review process that OIRA makes available for public inspection, and OIRA meetings with the public.

Under these procedures, all written materials received from anyone not employed by the federal government pertaining to a rule under review are placed in a file made available to the public in OIRA's public reading room. OIRA makes available, upon written request made after publication in the Federal Register, copies of any draft of an ANPRM, NPRM, or final rule submitted for OIRA's review under Executive Order No. 12291. OIRA also makes available upon written request, made after publication of the Regulatory Program, any agency draft submitted under Executive Order No. 12498. And OIRA places in its reading room copies of all letters returning rules for reconsideration under Executive Order No. 12291. At the end of each month, statistics regarding regulatory reviews completed during the previous months are also placed there.

I understand these procedures are intended to strike a balance between providing information to the public regarding OIRA's reviews and decisions, and maintaining necessary confidentiality during the course of deliberations within the Executive branch. The Administrative Conference of the United States recently adopted a report essentially approving these procedures as striking the correct balance.

It is therefore my view, at this point, that the existing procedures need not be complicated and constrained by the addition of a new logging and disclosure requirement.

Question 10. What do you see as the relationship between OMB's responsibilities for information policies and OMB's responsibilities for regulatory review under Executive Orders 12291 and 12498?

Answer. OMB's responsibilities for information policies under the Paperwork Reduction Act and its responsibilities for regulatory review under Executive Orders No. 12291 and 12498 are complementary and mutually supportive. Under the Paperwork Reduction Act, Congress provided broad oversight authority for OMB to review and reduce the burden of unnecessary Federally-imposed reporting and recordkeeping. In carrying this out, OMB does not separate its review of paperwork activities from its reviews of agency regulations. At least 75 percent of the total Federal paperwork burden is imposed for regulatory or compliance purposes. Several statutes specifically require the President or OMB to review agency rules for particular purposes. OMB cannot review Federal paperwork without reviewing agency regulations.

Moreover, OMB examines more than the underlying regulation in which the paperwork requirement is embedded. OMB also examines the extent to which related statutory, budgetary, and board policy mandates may be driving such paperwork requirements. In short, proper review of paperwork burdens, as required by the Paperwork Reduction Act, must of necessity include a careful understanding of the underlying source of the paperwork requirement.

Similarly, the requirements for executive oversight of regulatory planning and review set forth in Executive Orders No. 12291 and 12498 have created a process for OMB to oversee regulations dealing with information resources management. These regulations include GSA's Federal Information Resources Management Regulations (FIRMRs) and the Department of Commerce's Federal Information Processing Standards (FIPS). To the extent that agencies operate major systems through grant and contracts with States, localities and other entities, agency program regulations are increasingly an instrument of information policy. Such review of regulations permits OMB to identify and resolve important information policy issues; such as prescribing information technology requirements in program regulations, and assuring compliance with the Computer Security Act of 1987 and the Privacy Act of 1974 especially as amended in 1988 to deal with computer matching.

Question 11. Do you believe the information policy responsibilities and the information clearance responsibility of the Director of OMB should be separated from the regulatory review responsibilities assigned to the Director by Executive Orders 12291 and 12498?

Answer. No, not on the basis of what I now know.

Question 12. What is your view of the information collection budget process (ICB) as a means to manage the costs associated with information collection requests upon the public?

Answer. The annual Information Collection Budget is a management tool, and its is an adjunct to the individual case-by-case review required by the Paperwork Reduction Act and OMB's paperwork clearance procedures. It is used by agency officials in their planning and control processes to review collections of information for the forthcoming year. OMB has used the ICB in conjunction with its management reviews of agencies, to assure that they comply with the Act's direction to manage information needs and uses carefully.

The ICB does not permit OMB to disapprove an individual collection of information. Disapprovals may occur only as part of OMB's case-by-case review of an individual collection of information, in accordance with the procedures and policies of the Act. On the other hand, and annual comprehensive review of ongoing agency information collection plans and efforts gives agencies and OMB management the opportunity to evaluate the overall burden and costs associated with information collection requests upon the public, and to balance the imposition of those burdens and costs against the programmatic needs the agency will have for that information.

I have not gotten far enough into the details of the underlying ICB analytic process to have an informed sense of its technical validity. But as conceptual matter, it seems to me to make sense.

Question 13. In your view, in what areas can we expect growth in information demands made upon the public in the next four years? What areas do you believe post the greatest opportunities for reducing burdens upon the public associated with government information collection activities?

Answer. As a general matter, agencies collect information to help develop, implement, and enforce statutory programs. According to the FY 1988 Information Collection Budget, 70 percent of the 1.88 trillion hours of burden the Federal government imposes annually is mandatory, with most of this burden imposed by the Federal tax system, the Federal procurement system, and by Federal regulatory agencies. Another 24 percent of the total Federal paperwork burden is required to obtain or retain Federal benefits, e.g., to apply for grants or other Federal aid, and to comply with post-grant monitoring requirements.

Recent major increases in Federal reporting burden were imposed by newly enacted statutes and expanded regulatory programs. What new legislation and legislative amendments Congress will enact, what new regulatory reporting requirements will be needed to support legitimate program needs is unclear and difficult to predict at this time.

OMB reviews over 3,000 agency information collections a year. Working with the agencies, OMB has succeeded in improving the quality and reducing the burden of many of these. The Paperwork Reduction Act assures that each information collection is reviewed by professional staff in the agency and OMB who seek to balance the burdens against the need for data. Information collection needed in the future will be subjected to a review process that can accomplish this purpose.

Question 14. The 1986 Paperwork Reduction Act Amendments required a separate accounting of appropriate funds that will show funds spent by OIRA for information-related activities assigned by the Act, including such regulatory review activites, and funds spent for activities which are not related to responsibilities assigned by the Act.

Are you satisified with the accounting procedure which has been established to meet this requirement? Do you plan to make any changes?

Answer. The 1986 amendments to the Paperwork Reduction Act authorized appropriations for fiscal years 1987, 1988, and 1989 for the Office of Information and Regulatory Affairs (OIRA) to carry out the provisions of the Paperwork Reduction Act. The Conference Report for this authorization provision specifically stated that "[t]he Office may perform other functions provided it obtains sepearate funding for these activities." The Director of OMB has delegated to the OIRA Administrator the authority to implement Executive Order No. 12291, and has assigned the OIRA Administrator responsibilities to implement Executive Order No. 12498. In so doing, the Director has directed that OIRA be provided the funding from OMB's appropriation to carry out these responsibilities.

It is my understanding that procedures have been adopted to keep track of the allocation of staff time and related resources between, on the one hand, duties assigned by the Paperwork Reduction Act, and, on the other hand, all other duties. Accordingly, Paperwork Reduction Act activities are charged to the funds appropriated to OMB specifically for those purposes, and all other OIRA activities are charged to the general funds appropriated to OMB. If confirmed, I intend to ensure that these procedures continue, and are fully attended to by the OIRA Administrator.

Question 15. What kinds of qualifications do you believe the Administrator of the Office of Information and Regulatory Affairs should have?

Answer. The primary qualifications for the Administrator of the Office of Information and Regulatory Affairs are similar to those I would expect for any senior manager in OMB—respect for and an understanding of the role of the President and the Executive Office in which he or she will serve, education and experience in areas pertinent to the responsibilties he or she will have, the ability and practice of working hard for long hours, the ability to cope with the requirements to balance competing claims, and an understanding of how to manage and work effectively with people.

Question 16. The authorization for appropriations to the Office of Information and Regulatory Affairs expires at the end of the current fiscal year. Do you expect the Bush Administration to request and support a new authorization?

Answer. Yes.

Question 17. Do you believe that the oversight and coordination of federal statistical programs is adequate? Do you think there is a need to establish guidelines for federal statistical activities?

Answer. Because the Federal government has a decentralized statistical system, oversight and coordination of Federal statistical programs is essential. Improved oversight and coordination is needed and, in fact, OMB has taken steps over the past several months to increase the emphasis on these activities. This has occurred in both our domestic and international statistical activities. Working with the agencies, OMB expects to take further steps in the future.

The Federal government has had guidelines for federal statistical activities in one form or another since 1952. Since no thorough revision of these guidelines has been made during the last ten years, it seems to be time for another revision. Both providers and users of information have a right to expect a consistently high level of performance from Federal statistical agencies. The guidelines should identify generally accepted sound statistical practices and assist agencies in achieving these practices. Working through the recently formed Council of Heads of Statistical Agencies, OMB can work with the agencies in developing appropriate revisions of the statistical guidelines.

Question 18. The Paperwork Reduction Act establishes OMB as the government's vanguard in the government's efforts to take advantage of new information technology, both in terms of agency internal needs and in terms of demands upon the public for information.

(a) What priority do you intend to place on OMB's role in this area?

(b) What strategy will you undertake to restore the government to a position of leadership in information technology?

Answer. As the question implies, the objectives of the Paperwork Reduction Act and the responsibilities assigned to the Office of Management and Budget seek to balance two seemingly competing goals. The Act encourages greater use of information technology and thereby the ability to collect, process, and transmit more information on the one hand, while calling for reducing burden on the public and minimizing intrusion by government on the other.

Pursuit of these objectives will continue to be a high priority at OMB. The Paperwork Reduction Act gives OMB important authorities with which to pursue these objectives. If confirmed, I intend to seek early action by the Congress to reauthorize the Office of Information and Regulatory Affairs to continue its important work.

As to the question of a strategy to restore the government's role as a leader in the use of information technology, I see the OMB's information management program as having several, complementary thrusts. First, I would expect to continue the work done in the Reagan Administration to identify and intensively review major, critical applications of technology, like the redesign of the tax system and modernization of the air traffic control system. These systems are essential to the effective operation of government and, simply put, they must work. They also represent multi-billion dollar investments and we must assure that we invest wisely. Second, we need to use the authorities vested in the Office of Information and Regulatory Affairs and the Office of Federal Procurement Policy to make the latest technology easier to acquire. Third, I think we can do an even better job of using technology to reduce the public reporting burden. Agencies like the Internal Revenue Service have already made considerable progress in substituting electronic information collections for paper, with a resultant reduction in both the cost to information provider and to the government. We should do more.

Question 19. As a general principle, what is your approach to "sunshine" for the governmental proceedings in which OMB participates? Where, as the Director of OMB, would you draw the line on open government?

Answer. Drawing a line on what constitutes the proper limits of open government is difficult. I discussed some of this in my answer to Question 9. Among the principles I believe apply in deciding whether to limit public participation in governmental proceedings are these: (1) agencies must be accountable for their actions and there should be a general presumption favoring public access to information about agency activities; and (2) the ability of policy officials, especially the President, to obtain candid counsel from his advisors must be preserved. In addition, concerns for national security or the protection of proprietary or personal information may warrant limiting access to particular information. Unfortunately, these principles sometimes argue in conflicting directions.

In applying those principles to OMB, one must, distinguish between those activities in which OMB makes administrative decisions similar to those of a line agency and must be publicly accountable, and those activities in which OMB serves as a staff arm and advisor to the President. The Paperwork Reduction Act has extensive "sunshine" provisions and I believe that they are appropriate. The public is informed, by Federal Register notice, when OMB receives a request for approval of a draft agency information collection and all documents pertaining to an action are part of a public docket. OMB is obliged to make decisions under that Act that are publicly available, and OMB should be held to account consistent with the standards and procedures of the Act. On the other hand, when OMB acts in its advisory capacity, as it does when it is reviewing draft agency rules or agency budget requests on behalf of the President, I would argue that wide access to these deliberations would seriously impair the decision-making process. More generally, the law protects from disclosure internal, predecisional deliberative processes, and I believe the way the courts have drawn this line serves the public interest in this area.

Question 20. Do you believe that the public participation, public protection, and other information clearance requirements of the Paperwork Reduction Act extend to statutorily-mandated disclosure requirements? (When the government requests one party to provide information to a third party.)

Answer. Yes. Third party disclosures, including labeling requirements, mandated by the Federal government are simply another form of information burden placed by agencies on the public to carry out their program objectives. Federal disclosure requirements require the public to collect and disseminate enormous quantities of information and paper, and impose precisely the same costs and burden on the public as if the paper were mailed to a Federal agency. In enacting the Paperwork Reduction Act, the Congress recognized this. The legislative history shows that Congress intended to protect the public from poorly-supported or unduly burdensome disclosure requirements, as well as other Federal paperwork requirements. The 1986 Amendments to the Paperwork Reduction Act further supports the coverage of disclosure requirements. For example, Senator Lawton Chiles stated on the floor on passage of those amendments: "The notion the law was dedicated primarily to 'forms, questionnaires, and surveys' and not to other instruments such as reporting, recordkeeping, and disclosure requirements which are means to carry out federally 'sponsored collections of information' is a fundamental misreading of what the law states, what the Congress of 1980 intended, and what this Committee affirms in the amendments of 1986 * * *."

Question 21. Are you aware of any action taken by the Reagan Administration or planned by the Bush Administration to appeal the recent decision by the Third Circuit of the United States Court of Appeals regarding the OSHA Hazardous Communication Standard for Employers and the Workforce and the scope of the Paperwork Reduction Act on disclosure requirements?

Answer. I am generally aware that the Third Circuit Court of Appeals ruled that the Paperwork Reduction Act did not apply to three portions of OSHA's Hazard Communication Standard that had been reviewed by OMB under the Paperwork Reduction Act. I understand that this is a final decision by that Circuit and that any review of the decision must be sought in the Supreme Court. I am not aware of what the Reagan-Bush Justice Department now intends, or would intend, to do with respect to the possibility of appeal to the Supreme Court.

VII. OFFICE OF FEDERAL PROCUREMENT POLICY

Last year, Congress strengthened the authority of the Administrator of the Office of Federal Procurement Policy (OFPP) by creating a Regulatory Council, reestablishing a Cost Accounting Standards Board, instituting a set of procurement integrity requirements for contractors and government officials, and providing for permanent authorization for appropriations.

Nevertheless, the relative success of OFPP's performance in managing the government's $200 billion a year procurement program depends heavily on whether it receives the support and commitment of the OMB Director. The legislative history makes it clear that both the Senate and House expect the Administrator to take a leading role in procurement policy and reform.

Question 1a. In light of these developoments, what priority will you place on finding a strong and effective Administrator of OFPP to recommend to the President?

Answer. Section 5(b) of the Office of Federal Procurement Policy Act (41 U.S.C. 404) states:

"(b) There shall be at the Head of the Office an Administrator for Federal Procurement Policy (hereinafter referred to as the 'Administrator'), who shall be appointed by the President, by and with the advice and consent of the Senate."

One of my most important tasks is to find a highly qualified person to recommend to the President for appointment. This is an important appointment involving a highly sensitive and visible position. Because the appointment is Presidential, I would expect the Office of Presidential Personnel and others to make recommendations to the President as well. I am, of course, confident that the President will nominate a person who is highly qualified.

Question 1b. What kind of qualifications will you be looking for in a new Administrator?

Answer. The essence of the Administrator's job is to establish and carry out public policy in an area that has become very complex, controversial and highly visible. Accordingly, the most important qualifications that I will be looking for are the ability to make sound decisions on difficult public policy issues and the capacity to conceive, carry out and monitor proper management initiatives to improve the Government's contracting and procurement programs. The Administrator must be able to work with and earn the respect of Congress, various public interest groups and the agencies and departments. This is not an easy task and it requires a capable, dedicated person—preferably with extensive experience with contracting issues, a well-earned reputation for high personal integrity, and a capacity to get things done (in this case, without much in the way of resources, and with limited direct operating authority!).

Question 1c. What are your primary interests in procurement policy and what kind of support do you believe the OFPP Administrator will need from the Director?

Answer. My interest in procurement is to ensure that we are getting the best return possible on our tax dollars. Federal agencies and departments spend approximately $200 billion annually through the procurement process. This is roughly ⅕ of the entire Federal budget. Accordingly, the procedures used in expending these funds are extremely important, and we must ensure that they provide for the conduct of open, honest procurements in an efficient, effective manner. Regulations that control the process must be totally justified and those that do not contribute to the efficiency and integrity of the system must be discarded.

In addition, the Government needs to do a much better job of buying commercial products rather than relying on detailed specifications to meet its needs. If confirmed, I intend to offer my full support and guidance to the new OFPP Administrator.

Question 1d. What role do you see for the new OFPP Administrator in addressing problems in the defense procurement process?

Answer. Since OFPP has responsibility for Government-wide procurement policy, and since the DOD system accounts for over 70% of the $200 billion spent annually in direct Federal procurements, I believe the new Administrator must be an active participant in helping address the problems that have surfaced. In fact, many of these problems—e.g., those dealing with information on bid and proposals and procurement integrity—are not systemically unique to DOD and they must be addressed, at least in large part, on a Government-wide basis. We need to ensure that the Administrator and the new procurement leadership at DOD operate as a team to achieve the best results for the Administration and for the country.

The amendments adopted in 1988 gave the Administrator enhanced authority to rescind or deny promulgation of agency procurement regulations that are inconsistent with Federal procurement policies and regulations. The Administrator is now required to respond to and act upon written requests from the public which raise issues of inconsistency with established procurement policy. In the past, this authority was vested with the Director of OMB, but was never invoked.

Question 2a. What priority do you place on a less complex and more uniform and consistent regulatory system for government contracting throughout the Federal Government?

Answer. Simplification of the Federal procurement process, and the injection of greater uniformity and consistency in its policies and regulations, have been major undertakings of the Reagan Administration. Much was accomplished during the past eight years, such as the issuance in 1984 of the single government-wide procurement regulation, the Federal Acquisition Regulation. Nevertheless, more needs to be done, and we intend to press on with these procurement reform initiatives. I place a very high priority on this program, and, if confirmed, will look to the Administrator and staff of the Office of Federal Procurement Policy to lead Executive Branch efforts in this area.

At the same time, however, I must note that an interest in simplification is not always consistent with other important public interests. With this in mind, I can only offer a promise to attempt to strike a sensible balance—resorting, as necessary, to common sense.

Question 2b. How do you believe the Administrator of OFPP should exercise the authority to rescind promulgation of inconsistent agency procurement policies and regulations? Should this authority be used routinely or sparingly?

Answer. I understand that, for the past two years during which OFPP has been reviewing agency regulations, virtually all of its recommendations for major change in, or withdrawal of, defective regulations have been honored by the agencies. I would hope that the agencies would continue to cooperate with the Office of Federal Procurement Policy in the regulatory reform area, and that the rescission authority would rarely, if ever, need to be formally exercised. In instances where that cooperation is not forthcoming, however, I would expect the Administrator to move expeditiously to rescind regulations that impose unnecessary burdens on the contracting process or are inconsistent with Government-wide policies or regulations. In summary, I would expect this authority to be employed prudently and as circumstances dictate, and only after the issues have been thoroughly explored with the affected agency.

Question 2c. How do you believe the Administrator of OFPP should exercise the authority to respond to and act upon written requests from the public which raise issues of inconsistency with established procurement policy?

Answer. I understand that the Office has—since it established a regulatory review program in 1987—routinely considered and responded to public concerns about procurement regulations that were brought to its attention. The recent legislation recognizes that process, formalizes it, and places certain requirements on how and when the Administrator must respond to public concerns in this area. I would expect the Administrator to fully comply with the intent of this legislation, and to be fully responsive to the concerns of the public with respect to specific regulatory requirements—subject, of course, to the limitations that may inhere in resources allocated to this function by Congress.

Question 2d. How closely do you plan to supervise the Administrator in the exercise of these specific functions?

Answer. The Administrator for Federal Procurement Policy will be, of course, a senior member of the Director's staff. As such, he or she will be a highly competent manager—one upon whom I would rely for running the Office of Federal Procurement Policy and this Administration's procurement reform agenda. If confirmed, I plan to oversee the Administrator's activities (in some cases working through a Deputy) and rely upon him or her to keep me fully informed of developments, and to bring to my attention those circumstances that are of particular significance and that may specifically require my action.

The 100th Congress enacted "Procurement Integrity" provisions (Section 6 of P.L. 100-679), a Major Fraud Act (P.L. 100-700), and a consultants registration requirement—all of which are intended to give the Administration new tools with which to attack procurement fraud and waste. The OFPP and the new Federal Acquisition Regulatory Council could play a substantial role in implementing these measures.

Question 3a. Do you believe a more aggressive approach to procurement fraud, waste, and mismanagement is necessary?

Answer. The elimination of waste, fraud and mismanagement in Federal procurement must be a high priority of the Bush Administration. Improving the integrity and efficiency of the Federal procurement process is essential for three reasons:

(1) we must insure that we acquire needed products and services of the required quality at a fair price;

(2) in a period of large budget deficits, each tax dollar must be spent as prudently as possible; and

(3) the public should be able to have confidence in the Federal procurement process, and in the probity and competence of the officials responsible for it.

One of the primary responsibilities of the OFPP and the new Federal Acquisition Regulatory Council will be to insure that policies and regulations are promulgated to curb fraud and improve the management of procurement activities. I would hope to be able to move vigorously on this, and we will work with the agencies and private industry to achieve this vital objective.

Question 3b. What role do you see OMB and OFPP playing in this effort?

Answer. If confirmed, I will attempt to ensure that OMB and OFPP continue to press for management improvements at all levels within the agencies to discover and eliminate procurement fraud wherever it exists.

OFPP's role is, of course, particularly vital in this effort. The Office is currently developing Government-wide policy guidance for implementing the "Procurement Integrity" and the "Consultant Reform" requirements that were recently enacted by Congress. This policy guidance is required to be implemented in the Federal Acquisition Regulation within the next few months, and will apply to all executive agencies. And, as an ongoing responsibility, OFPP will continue to provide leadership in improving and simplifying all aspects of the Federal procurement process and improving the quality of the Federal procurement workforce.

All of this said, however, I must underline the obvious: The problems are large; OFPP is not. And while I would very much like to see the Office fulfill high expectations, I am mindful of inherent limitations and reluctant to over promise.

Question 3c. Given the new responsibilities assigned to OFPP by the 1988 amendments, such as the assignment of the Administrator to chair a Cost Accounting

Standards Board, do you intend to recommend that the President request less, the same, or more appropriations for the OFPP in the upcoming fiscal year?

Answer. As you know, the OFPP received nearly a fifty percent increase in its budget for fiscal year 87, a level that has been maintained through the current fiscal year. An additional increase has been included in President Reagan's budget for FY 1990 to reflect, in part, the cost accounting standards assignment. Decisions regarding the level of appropriations in future years will be made upon completion of our evaluations and in the light of the President's overall agenda and priorities, and the Gramm-Rudman-Hollings targets.

The OFPP Act and the Paperwork Reduction Act require federal agencies to obtain public comments and participation in the development and review of new and existing procurement regulations. In the case of reporting, record keeping, and disclosure requirements associated with government contracting, Congress contemplated the Director would see to it that the review roles undertaken by each office would operate cooperatively and in conjunction with each other.

Question 4a. As a philosophical matter, do you believe public participation in the development of agency policies is a good or bad idea?

Answer. Public participation often is critical to the development of sound, cost-effective agency policies, particularly when those policies (or their absence) are likely to impose costs on the public. An exchange of ideas between a Government agency and the public can be healthy for both parties. The agency can be reasonably assured that it has developed the least burdensome and the most effective means of achieving its stated goals. The public can be better assured that its concerns have been noted and, where possible, addressed by the agency.

Also, when agency staff know that the public will have an opportunity to comment on their work, they may be more careful to identify the best solution for all concerned and to justify their choice to agency officials, OMB, and ultimately the public.

Question 4b. Do you believe the Director of OMB has any responsibility to encourage more public participation in agency actions?

Answer. The Director of OMB and the heads of each of the Federal agencies have a resonsibility to provide the public with the opportunity to comment on agency proposals, particularly when those proposals will impose costs on the public. The agencies are charged to publish notices of any proposed record keeping and reporting requirements and their estimated burdens that will be incurred by the public and to solicit public comment on those proposals. OMB will review the comments submitted in response to these requests and will solicit actively comments from the public on the estimated burdens of the proposed action and its alternatives to assure that the least burdensome means of achieving the specific objeectives has been identified.

OMB also can hold public hearings on particular agency paperwork requirements or proposals that appear to be unnecessarily burdensome to the public. In some cases, such hearings may provide more complete information regarding the merits of alternative solutions than would be provided through written comments only.

The success of the paperwork review process is best demonstrated by more cost-effective requirements. Because active public participation is an important element in achieving that goal, if confirmed, I plan to support such participation wherever practicable.

Question 4c. What opportunities do you see in ensuring that OFPP and OIRA carry out their responsibilities in conjunction with each other?

Answer. The OFPP and OIRA have a joint responsibility to review record keeping and reporting requirements pertaining to procurement actions to ensure that they meet the requirements of the Paperwork Reduction Act, specifically that they are: (1) necessary to meet the specific objectives of the agency, (2) the least burdensome means of achieving those objectives, and (3) not duplicative with any other collection of information by a Federal agency. OIRA has expertise in the paperwork review area and OFPP has expertise in procurement policy. I fully expect that this combination of talent should provide a solid team of reviewers in the procurement area and will contribute substantially to more cost-effective Government procurement actions.

Question 4d. How closely do you plan to supervise the Administrator in the exercise of these public functions?

Answer. The charge to the Administrator of OFPP in the review of record keeping and reporting requirements is made quite clear by the requirements of the Paperwork Reduction Act. A paperwork requirement must meet three tests: (1) it must be necessary to meet a specific agency need, (2) it must be the least burdensome, and (3) it cannot duplicate any other Federal collection of information. And, because all actions taken in this area are open to public comment, the Administrator's action will be subject to intense public scrutiny as well.

Clearly the Director of OMB cannot supervise each and every action of the Administrator. I expect the Administrator to carry out the requirements of the Paperwork Reduction Act and work together with OIRA to ensure a complete and timely review of all proposed actions.

I have assigned a high priority to the development of a more cost-effective Government procurement process. An effective review of procurement paperwork requirements is a critical ingredient to achieving that goal. I would plan to monitor our success in this area carefully and make any adjustments necessary to achieve this objective.

VIII. INTERGOVERNMENTAL RELATIONS

Question 1. Do you believe that there is a need to further reduce federal regulatory burdens on State and local governments?

Answer. Yes, I do. I understand that State and local governments have not been shy about letting OMB know of the burdens that Federal regulation imposes on their activities. Organizations such as the National Governors' Association (NGA) and the National Association of Towns and Townships (NATaT) have met with and submitterd written materials to OMB describing the problems that States and localities face when trying to comply with the myraid of Federal requirements and proposing ways to alleviate these burdens.

I understand that over the past two years the NGA has provided the Reagan Administration, in two phases, with almost 250 recommendations for regulatory relief for States and localities. OMB, the White House Office of Intergovernmental Affairs, and the affected Federal departments and agencies identified almost 140 of these recommendations for implementation. Many of those recommendations have already been implemented, and if confirmed, I will review the remaining commitments to assess what further action is needed.

I am also open to new initiatives and ideas for providing more administrative flexibility to the States and localities. The Federal government can benefit from the unique perspective and expertise of the State and local partners.

Finally, with regard to future regulations, I expect OMB to continue using its authorities under Executive Order Nos. 12291 and 12612, "Federalism," to ensure that regulatory proposals are well-reasoned and provide maximum administrative flexibility to State and local administrators.

Question 2. What steps will you take to make sure that federal agencies comply with the Regulatory Flexibility Act as it applies to small governments?

Answer. The Regulatory Flexibility Act requires that a Federal agency issuing a general notice of proposed rulemaking or a final rule must include an analysis of the rule's impact on small "entities," which includes small local governments, unless the agency certifies that the regulations will have no impact on a substantial number of small entities.

I cannot disagree with complaints from State and local governments that in the past, agencies have not paid sufficient attention to this Act and its requirements for a "regulatory impact analysis," particularly with regard to rulemakings affecting small local governments. To help address this problem, OMB has required Federal departments and agencies to revise the descriptions of regulatory actions contained in the semiannual Unified Agenda of Federal Regulations. Effective with the last issue of the Unified Agenda, issued this past October, agencies now must specifically indicate whether each regulatory item in the document affects small local governments. It is OMB's hope that this proves useful in further sensitizing agencies to the requirements of the Regulatory Flexibility Act, and in alerting local governments to upcoming regulatory actions of special importance to them. I also hope that this effort will encourage local governments to provide comments on proposed rules of particular interest. The regulatory agencies and OMB depend on and will significantly benefit from such comments.

RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED BY CHAIRMAN GLENN

Question 1. This Committee has been considering changes in the Federal Advisory Committee Act (FACA). As originally passed in 1972, FACA established a Committee Management Secretariat within OMB to administer and enforce the Act's provisions throughout government. That responsibility was later transferred to the General Services Administration (GSA). Last year, the General Accounting Office testified that GSA was not carrying out many of its statutory responsibilities under the Act, including proper consultation with the agencies establishing advisory committees, conducting an annual review of each committee, and reporting to Congress on the implementation of recommendations by Presidential advisory committees.

What role do you think OMB should play in federal advisory committee management? Do you think the Committee Management Secretariat function should be moved back to OMB? If not what will you do as OMB Director to ensure that GSA and the Committee Management Secretariat carry out their statutory responsibilities?

Answer. Since this question was first raised, OMB has issued Bulletin No. 89-08 on December 23, 1988. I understand that this Bulletin requires Agencies to submit a listing by March 15, 1989, of its advisory committees together with recommendations for reducing their cost. The bulletin also requires that GSA develop a plan for improved monitoring of these committees. OMB will approved and monitor implementation of the plan. I believe this action is the proper exercise of OMB's oversight role. At this point, I am not aware of a need to shift the Committee Management Secretariat back to OMB.

The Department of Energy faces very serious problems in the operation of its nuclear weapons production complex. Chief among these is the severe contamination found in and around the facilities. Both the GAO and the DOE have estimated the cost of cleanup will total over $100 billion.

Question 2a. What actions will you undertake, as OMB Director, to fund this cleanup process?

Answer. These costs are, of course, only estimates of expenditures that must take place over decades. From my perspective, they will require further review. Even so, I do not question the presumption that the final estimates will be very large. My present, highly imperfect, understanding of the numbers is as follows.

The Department of Energy's most recent estimate of the cost of cleaning up existing environmental problems, taking corrective actions to prevent additional problems and performing other special cleanup projects for the nuclear weapons complex is $47-$85 billion over a period that may extend to the year 2025. That comes out to an average of about $1.3-$2.4 billion per year.

In addition to the figure I just mentioned, President Reagan submitted a report on "modernization". That report identifies individual projects amounting to $28 billion through the year 2010 (about $1.4 billion per year) to modernize and replace defense facilities.

Both of the figures are in addition to an estimated $1.4 billion per year that DOE spends to perform the regular, ongoing activities required to operate its defense facilities in a safe and environmentally sound manner. This includes the management of hazardous and radioactive wastes.

All of this adds up to between 4 and 5 billion dollars a year (on average).

The FY 1990 budget recently submitted to Congress by President Reagan requests $3.3 billion for these activities, an increase of 28 percent above 1989. Whether this is sufficient for the near term is a matter that the incoming Administration will be reviewing in the next two weeks. I am not yet sufficiently well informed to have a responsible judgment on this.

Question 2b. What funding mechanisms would you prefer? Would you consider establishing a Trust Fund account?

Answer. Currently the budget structure is organized by program activities and provides for targeted funding for weapons production, waste management, research and development, etc. Money for cleanup is included in all of these program areas, but, as I understand it, there are no accounting controls in place to track the spending on environmental cleanup.

I am inclined to think I would support the establishment of a separate appropriations account for environmental cleanup and restoration. Such an account could contain a budget line-item for each project. This would improve priority-setting and accountability for clean-up actions.

As for a trust fund, that is a special account usually established to keep track of earmarked receipts, to see that they are used only for specific purposes. If there were earmarked receipts for the purposes of interest here, it might be appropriate to establish a "trust fund". But the concept doesn't really apply now because the source of the funds is the general fund of the Treasury. The *use* of the funds could be adequately controlled by isolating them into a separate appropriations account.

Question 3. As OMB Director, how do you intend to monitor DOE's expenditures of funds allocated for environmental safety and health programs?

Answer. Environmental, Safety and Health programs within DOE cover a wide variety of activities—setting standards and guidelines, bringing operating facilities into compliance with Federal, state and local requirements and cleaning up waste problems from past operations.

In the previous answer, I dealt with the last category, environmental cleanup, where I believe that establishment of a separate new appropriation account would enhance the ability of both OMB and Congress to monitor DOE expenditures.

DOE currently has a separate organization, with its own budget line item, to develop standards, and inspect to see if the agency's operations are in compliance. Monitoring expenditures in this area does not appear to be at issue.

Monitoring DOE's expenditures for bringing its current operating facilities into compliance with Federal, state and local requirements does pose a problem. At the present time, it is my understanding that DOE field offices have the authority to enter into compliance agreements, and that funds to implement these agreements are available within the funds allocated to these sites. I believe that this process should be subject to greater scrutiny to ensure that priority problem areas are being addressed first, and that there is an appropriate degree of consistency in the requirements to be met at each site and in the timing of the cleanup at each site. It is also important that there be a better system of overseeing Departmental commitments to large, long term financial obligations.

While I am generally supportive of funding to address critical environmental, safety and health problems at DOE, I also believe that there is a need for increased accountability, and I intend to work to establish that accountability.

Question 4. The Department of Energy has also cited a need for at least two New Production Reactors to produce the tritium our nuclear arsenal requires at a cost of close to $7 billion.

What priority would you give to such a request? What other factors, particularly those pertaining to the maintenance of our national security, would you consider?

Answer. It is my understanding that DOE must continue to produce tritium to maintain the existing stockpile of nuclear weapons. So tritium is a high priority. A recent study by the National Academy of Sciences and events at the Savannah River reactors seem to have made it clear that new tritium production capacity is needed on an urgent schedule. Thus, capacity to manufacture tritium is a high priority. The Reagan Administration has chosen to build *two* new reactors to produce tritium, the second one being insurance against some unforseen problem with the first. I have not yet had the opportunity to review the analysis and justification of the two-reactor proposal, so I cannot now comment on the number of reactors that are actually needed.

Question 5. DOE construction projects have been plagued by large cost overruns. One study found 21 projects costing five times as much as originally estimated. Are there actions you will undertake as OMB Director to monitor DOE projects to prevent such enormous cost overruns?

Answer. I understand that OMB has two techniques for monitoring projects and assuring that the costs are contained.

First, there are DOE's "Construction Data Sheets". These are detailed explanations of each project. They include the annual cost each year until the project is completed, total estimated costs for the construction phase and total cost for the entire project. These sheets are submitted to OMB and then to Congress each year with the annual budget. At OMB, the staff reviews the forms and questions any changes since the last submission of the forms.

For projects that deserve special attention, OMB requires the Department of Energy to submit quarterly reports showing that milestones are being met within projected costs. Today OMB requires such quarterly reports for the Superconducting Super Collider.

The problem with many of these projects is that the scope changes after the project has been started. This is not unnatural. Nor is the pattern by which practically all such changes result in increased costs rather than decreased costs.

I do not yet know enough about the pattern in DOE projects to determine whether there is a special set of problems at DOE. I would expect to work with the new Secretary of Energy in addressing this issue.

Question 6. Under the "A-106" process, the EPA recommends and OMB decides which federal facilities will receive funding for pollution abatement and other environmental compliance measures. This process has been hampered because other agencies have not been forthcoming in providing EPA with data necessary for it to make recommendations to OMB. Are there any steps you would take as OMB Director to improve interagency coordination?

Answer. The A-106 process has been hampered at times in the past by poor data provided by some agencies. I understand OMB has been working with EPA over the past two years to improve the data collection process and to inform non-participating agencies of the A-106 requirments. OMB staff indicate that the A-106 submissions have improved significantl

Part of the problem was that encies were not tracking the costs of environment compliance activities, frequently lumping these costs with maintenance activities. Several agencies recently have eablished separate accounts for environmental restoration and related activities.

EPA has been contacting agecies who have not been fully reporting to inform them of the requirements of A106. In addition, last summer OMB revised the major budget circular A-11 to flect the A-106 requirements. These changes attracted the attention of agencies hat had not been fully participating.

I am advised that OMB staff fnd this year's submission helpful and informative, and anticipate that future A-106 submissions will have more complete and more accurate information. However, I m not satisified that the process cannot be improved further. If confirmed, I wuld ask my staff to work with EPA to identify additional problems and make recommendations for strengthening the process.

OMB has been criticized by soe for weakening or blocking proposals drafted by other federal agencies relating environmental safety and health regulation. In effect, OMB has been accused of substituting its own judgment for the technical expertise of individual agencies.

Question 7a. To what extent ould OMB pass judgment on the substantive aspects of environmental health d safety regulations that have been proposed by other agencies after due considertion?

Answer. The regulatory review function of the Office of Information and Regulatory Affairs (OIRA) in OMB is bsically one of review, to assure that important aspects of a regulatory problem ar not overlooked and to provide a measure of quality control and consistency acros agencies dealing with similar problems.

I believe OMB should not subitute its technical judgment for the technical expertise of an agency. OMB's authrity under Executive Order No. 12291 is "advisory and consultative." It is advisory nd consultative because the Executive Order itself makes it clear that rulemaking thority vested by law in the heads of departments and agencies is not displaced by Executive Order No. 12291; whatever authority is vested by law in the agency heds remains with the head of that department or agency.

On the other hand, "advisory" does not mean irrelevant or inconsequential. The Executive Order clearly establises that the concerns and questions raised by the regulatory review process conduced by the Director of OMB on behalf of the President must be seriously considere by the agency head before he or she takes action.

I believe that the central revi function performed by OMB is essential to the development of a coherent, effeive Federal policy on managing the health and safety risks faced by the Americ public. Such a policy, to the extent permitted by law, should not disregard a balced approach to other societal interests, such as assuring the economic health of e nation.

Question 7b. Would you, as MB Director, make adjustments in the scope of OMB's review of proposed regulions on, for example, potentially injurious chemical and physical agents?

Answer. The regulatory review policy implemented by OIRA is governed by Executive Order No. 12291. Within e framework set out by that Order, the guiding principles for implementation of ese policies should include coherent, rational and faithful execution of laws acro all segments of the government. Thus, OIRA's review adds a government-wide erspective to an agency's tendency to pursue its own particular programs in isolon. At this point, I am not aware of any justification to change the scope of OIR's review, or to pick and choose areas for exemption.

There have been past instance where OIRA, in its review of "information collection" activities affecting ten or ore people, has modified or curtailed environmental surveillance activities by fedel agencies.

Question 8a. Do you believe at OIRA possesses sufficient expertise in survey design and environmental surveiance to review such agency activities?

Answer. I believe OIRA staff possess sufficient expertise to review information collections under the Paperwork eduction Act, including those concerning environmental issues. Under the Act, ORA is specifically charged with responsibilities regarding statistical methodology, cluding survey design, and staff are trained and experienced in this field. Regardg more specific, technical fields, I am aware that OIRA staff members possess advced degrees in a variety of disciplines. Their academic backgrounds, combined wi experience on the job, give them the expertise to review agency activities under t Act. The Paperwork Reduction Act sets up a tension between the specific, technil expertise of agency staff and the more general, oversight expertise of OIRA staff. It is the latter's responsibility to ask the hard questions and maintain the integrity of the Act's principles. I believe OIRA's staff are qualified to do this difficult job.

Question 8b. In your opinion, is it appropriate for OIRA to disapprove a study which has undergone substantive internal and external peer review by environmental safety professionals?

Answer. The purpose of OIRA review is to add a government-wide perspective, based on the statutory criteria set out in the Paperwork Reduction Act, to the internal review processes of individual Federal agencies. Internal agency review processes sometimes focus on relatively narrow objectives without considering basic objectives of the Paperwork Reduction Act. These are to ensure that information collected is the least burdensome necessary, is not duplicative, and has practical utility (5 CFR 1320.4). In general, the objective of OMB reviews under the Act is "to maximize the usefulness of information collected . . . by the Federal government" (44 U.S.C. 3501(3)). Where a draft agency information collection fails to meet these criteria, it may be appropriate—indeed, it may be legally required—for OIRA to disapprove it.

Question 9. In a review of the impact of the Paperwork Reduction Act on OMB reviews of Center for Disease Control (CDC) research activities, a House Energy and Commerce subcommittee found an apparent systemic bias of OMB reviewers against approval of studies proposed by CDC to study occupational and environmental health issues. In all cases, the proposed CDC investigations had undergone substantial peer review.

Do you intend to adopt procedures as OMB Director to ensure that the Paperwork Reduction Act is not used to interfere with the collection of public health and safety information?

Answer. I do not know whether the allegation that OMB or OIRA is somehow biased against CDC studies of occupational and environmental health issues is supported by the facts. The House report itself notes that only 6 of 51 research studies submitted by CDC over a two-and-a-half year period were rejected or modified, subject to conditions, by OIRA. I have been informed that OIRA took these actions not because it disagreed with the general research concepts, but because they failed to meet the basic criteria of the Paperwork Reduction Act. These studies are information collection efforts sponsored by the Federal government, and are designed to serve public policy purposes. OIRA has an obligation under the Paperwork Reduction Act to make certain that such studies are designed to serve their intended purposes. If I were persuaded that there were systematic bias against the study of health issues, I would of course attempt to remove such bias.————

RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED BY SENATOR LEVIN

Question 1. On June 13, 1986, (revised August 8, 1986) then-OIRA Administrator Wendy Gramm issued a memorandum to the heads of departments and agencies describing disclosure procedures OIRA would follow in reviewing rules and regulatory agendas. Do you plan on continuing that policy in full? Do you think the policy should be strengthened? If so, in what way and do you have any plans to do that? To what extent do you believe OIRA's and OMB's involvement in reviewing rules should be made known to the public?

Answer. As of now, I see no reason not to continue implementing those June 13, 1986 (as amended), disclosure procedures in full. These procedures appear to be working. I understand OIRA is unaware of any complaints or administrative problems with OIRA's compliance with these procedures.

I discussed that extent that OIRA's involvement in reviewing rules should be made known to the public in my answers separately provided to Chairman Glenn. Basically, these June 13, 1986, procedures appear appropriate, both in terms of releasing the relevant documents and the time of release. They are intended to strike an appropriate balance between providing information to the public regarding OIRA's reviews and decisions, and maintaining necessary confidentiality during the course of deliberations within the Executive branch.

Question 2. That do you think the appropriate role is for OMB and OIRA in federal regulatory matters? Is your opinion affected by whether a regulatory matter is within the jurisdiction of a department as opposed to a so-called independent agency? What are the differences, if any, between the role of OMB and OIRA in the regulatory matters of departments versus independent agencies?

Answer. In my answer to Chairman Glenn's Question 3 concerning OIRA, I indicated that it is a basic function of the Office of Management and Budget—in carrying out its budgetary, legislative, regulatory, and other forms of program oversight—to assure, within the discretion allowed by law, that agency activities are consistent with the policies of the President and his Administration. To the extent Presidential policies reflect a particular perspective on the role of the Federal government, and with that a set of priorities for government action, it is the function of OMB to assure that agencies take action consistent with that set of priorities.

On the other hand, Executive Order No. 12291 establishes the basic regulatory principles and procedures under which OMB, and thus OIRA, are to conduct systematic regulatory review of agency rulemakings. That Executive Order has excluded the so-called independent agencies from this review (Sec. 1(d)). As a result, these independent agencies are not now subject to regulatory review by OIRA.

It is also important to note that much of what the independent agencies do may involve formal rulemaking or be adjudicatory in nature. It would not be appropriate for officials in OMB to seek to influence such formal rulemaking or adjudicatory proceedings—whether they are being conducted by the so-called independent agencies or cabinet departments. As a general matter, however, if a so-called independent agency is going to implement generally applicable policies—by informal rulemaking or other general program means—that have a substantial impact on the actions of other Federal agencies and the public, the occasion may arise when Presidential review would be warranted.

Question 3. Other than when Congress overrides a Presidential veto or when the President does not sign a bill within 10 days of receiving it and Congress is in session, are there any circumstances under which appropriated funds can be spent without the approval of the President? Once approved, which branch actually spends the most? By what proportion?

Answer. As provided in the Constitution, no funds may be spent without an enacted appropriation. A bill making money available may be an appropriation bill or an authorization; in either case, it is not effective until signed into law by the President or passed over his veto.

Of three Branches of the Federal government, the Executive Branch receives by far the greatest amount of funds appropriated. This is only natural as it is the Executive Branch which is assigned the function of carrying out duly enacted laws. Both in terms of budget authority and outlays, the Legislative Branch and the Judiciary combined constitute less than one percent of the totals for the Federal government. However, both of these Branches are seeking funding levels for fiscal year 1990 considerably in excess of the current services estimates: the Legislative Branch's FY 90 request is nearly 15 percent higher, and the Judiciary's request is more than 13 percent higher. In contrast, the total request for the Executive Branch is approximately 0.5 percent below the current services level.

RESPONSES TO WRITTEN QUESTIONS SUBMITTED BY SENATOR BINGAMAN

Question 1. One of the greatest long-run economic challenges facing America is to improve productivity and the U.S. saving rate. What do you as Director of OMB intend to do to increase savings and productivity? What role do you see OMB playing with respect to other agencies and departments in overall government policy to increase savings and productivity?

Answer. Achieving higer rates of productivity growth and saving are key goals to which I am fully committed. Growth in productivity depends upon a large number of factors, such as the allocation of resources, changes in the quality of labor, improvement in management, advances in technology, curtailing government regulation, confidence in the future, and attitudes toward work. While the government can not directly affect all these, it can influence the outcome through a variety of means.

The most obvious way is to reduce the Federal deficit, preferably through curbing spending. Deficit reduction can help lower interest rates, thereby reducing the cost of capital to business. This will speed up the pace of investment, increase our capital stock, and promote the replacement of less efficient plant and equipment with more productive ones.

Another productivity-enhancing method is to promote investment in human capital through training, education and technological innovations. The Bush Administration will work closely with Congress to achieve excellence in education, science and technology.

The government can also promote economic efficiency by providing a suitable environment for private decision making. There is broad agreement that the environment of the 1970s was inhospitable to productivity growth: sharply rising inflation had the effect of raising the effective tax rate, thereby reducing the rate of return on capital; the two oil price shocks not only contributed to higher wages and prices, but also rendered some capital stock economically obsolete; and costly government regulation raised business costs and diverted investment away from traditional productivity-raising plant and equipment.

Some of these impediments have been mitigated in the 1980s, which is why there has been a pickup in manufacturing productivity growth.

But there is still a long way to go—especially when we consider the U.S. in relation to its international competitors (rather than merely in relation to itself over time.)

OMB's role with respect to the deficit and fiscal policy is well known. With respect to the other important determinants of productivity and savings, I would hope to have influence through whatever processes of formal and informal decisionmaking President Bush establishes.

Question 2. Productivity and savings are two components of the drive to improve the competitive position of American firms in the world economy. What other long range actions do you feel are necessary to improve U.S. economic competitiveness? What will be your role and the role of OMB in bringing about those need actions?

Answer. Please see my response to the prior question.

Question 3. Specifically, what do you see as the role of government information policy and regulatory policy in improving U.S. competitiveness?

Answer. Maintaining and improving American economic competitiveness in the future requires the Federal government to encourage such competitiveness in a variety of ways. Federal information collection and regulation, while often necessary to support societal goals, may adversely affect the ability of American firms to conduct business in a productive, efficient way. For example, regulatory and information collection requirements impose costs, may be duplicative or work at cross purposes, and may act as barriers to competition and free trade. The Federal government needs to ensure that in establishing regulatory programs to meet specific societal goals, these programs do not unnecessarily hinder or obstruct the competitiveness of the private sector.

Question 4. The Omnibus Trade and Competitiveness Act of 1988 creates the Competitiveness Policy Council to provide review and advice to the Federal government on the ability of the U.S. to compete in the global economy. Do you support funding of the Council and will you work to see that the Council functions successfully?

Answer. I am aware that the Trade Bill directed that a bipartisan Competitiveness Policy Council be established with twelve members (4 appointed by the President, and 8 appointed by the House and Senate, with equal representation from business, labor, academia, and State and local governments). The appointments are to be made by February 20th, 1989. $5 million was authorized by the Trade Bill to establish the Council, but no funding was provided in 1989 appropriations. During Congressional consideration of the Trade Bill, it is my understanding that the Reagan Administration opposed creation of the Council.

I am aware also of the reasoning that underlay the prior Administration's views. The proposed competitiveness Policy Council was deemed unnecessary because it would duplicate existing advisory bodies and more importantly, was deemed inappropriate because it would promote the development of a national industrial policy. Congress has not chosen to appropriate funds for the Council in fiscal year 1989, and the fiscal year 1990 Budget does not seek funding for the Council.

I personally am sympathetic with the interest in pulling together an informed bipartisan consensus on measures to improve U.S. competitiveness. But I, too, have some reservations about the need for or likely effectiveness of this exact approach. It is my expectation that the incoming Administration will review this matter and, in some way or another, seek to achieve the pro-competitiveness purposes of the Competitiveness Policy Council.

COMMITTEE NOTE

Shortly following the Committee's hearings, articles appeared in The Wall Street Journal and The Washington Post which bore on the responses given by Mr. Darman to Chairman Glenn and Senators Sasser and Lieberman at his confirmation hearing on his involvement in the preparation of President Reagan's Fiscal Year 1990 Budget Request.

In order to help clarify the record, Mr. Darman was affored the opportunity by Committee staff to elaborate on his oral remarks.

The two newspaper accounts and Mr. Darman's response follow:

[From the Wall Street Journal, February 3, 1989]

HONEYMOON GLITCH: DEPOSIT-FEE PLAN PUTS POLITICAL SAVVY OF BUSH AND AIDES IN DOUBT

(By Alan Murray and Gerald F. Seib)

The 4,000 people of Deer Lodge, Mont., know just one thing about the Bush administration so far, and they don't like it.

They are up in arms over consideration of a plan to charge a fee on bank and savings deposits. Thomas Welch, the president of tiny Pioneer Federal Savings & Loan, says angry citizens have stormed into his office and accosted him at Kiwanis meetings and the country club. "They're not happy about it," he complains.

So it goes across the nation. The situation has soured President Bush's honeymoon with Congress and diverted attention from the themes of ethics, bipartisanship and open government that the new chief executive wanted to stress. "This issue has struck a chord in people that I think everyone underestimated," says Rep. Charles Schumer, a New York Democrate whose office has been flooded with mail attacking the fee plan.

SOME IMPORTANT QUESTIONS

In part, the ruckus can be chalked up to predicatable early disarray from which President Bush undoubtedly can recover. But the Treasury's handling of the fee proposal, and the White House's failure to stop it from snowballing into a week's worth of front-page news and an avalanche of criticism, raise questions about the new administration's political savvy and highlight some operational differences between the Bush and Reagan administrations.

The flap also demonstrates how the budget deficit is consuming almost every thing else. Although Treasury Secretary Nicholas Brady has taken most of the criticism for the deposit-fee proposal, it actually was pushed first by Budget Director Richard Darman, a wily political operative whose clever ploys over the past decade have added a new word, "Darmanesque," to the Washington lexicon.

Senior officials say the flap will help them in the long run. They contend that the outcry over charging a fee to depositors will make it easier to sell the option they are likely to propose to President Bush today or Monday: raising the fees banks and thrift institutions pay directly for deposit insurance. But after the firestorm, it will be difficult to convince Congress and the public that fees paid by institutions won't be merely passed on to depositors. It's "like trading a $50 dog for two $25 cats," says House Banking Committee Chairman Henry B. Gonzales of Texas.

MEETING AT TREASURY

Mr. Darman brought up the deposit fee plan in a meeting at the Treasury Department late last year, where he argued that it should be put into the final Reagan budget, according to people attending the session. Although some descried the idea as political dynamite, Mr. Darman said it would finance a solution to the S&L problem and free up billions of dollars to pay for the "kinder, gentler" programs that President Bush promised in his campaign. And if President Reagan proposed it first, Mr. Darman figured, the new president could excape charges of breaking his promise of no new taxes.

The scheme collapsed after Reagan-administration officials refused to play along. But the deposit-fee proposal remained on the table at Treasury, which kept in close consultation with the budget chief.

What followed was a combination of political naivete, misjudgment, disorganization and bad luck. The importance of the S&L issue—to the budget and to the nation's sense of financial stability—forced the Bush administration to do too much, too fast. "It's sort of like a new car," says Thomas Griscom, who was communications director in the Reagan White House. "You don't go over 55 for the first 1,000 miles. It's a break-in period."

CABINET GOVERNMENT

In part, the deposit-fee controversy stemmed from President Bush's fondness for cabinet government. Cabinet officers such as Treasury Secretary Brady and Budget Director Darman are being given more rope than Reagan-administration officials were—perhaps enough to hang themselves.

The Bush White House also seems less concerned than the Reagan administration about packaging initiatives for favorable public relations. And President Bush and his chief of staff are demonstrating stubborness and tenacity in the face of criticism. "Reagan was great in this dimension: He wouldn't stick with a loser," says John Sears, a former Reagan campaign manager. The new team, administration officials say, is more willing to take some heat. "Anyone who tackles one of the biggest financial problems in the history of the U.S. is not going to get the 'good-guy award' of 1989," Secretary Brady says.

More broadly, the problem has its roots in the presidential campaign, which enabled Mr. Bush to sweep into office without spelling out an agenda for dealing with the nation's toughest problems, including the S&L crisis. Without a clear blueprint and with a need to shrink the budget deficit, missteps and surprises are more likely.

The S&L losses have been building for the past decade. A combination of economic turmoil, uneven deregulation, sloppy government supervision and poor and sometimes-fraudulent S&L management has turned hundreds of thrift institutions, all government-insured, insolvent. Estimates of the cost of cleaning up the mess have risen to about $90 billion.

The Reagan administration and Congress avoided the mind-boggling problem for years, but by last fall it became too big for the new president to ignore. A few weeks after the election, Secretary Brady invited Mr. Darman, the budget director-designate, to come to the Treasury and discuss what proposals should be put into the final Reagan budget, due out Jan. 9.

According to people attending the meeting, which was held in the Treasury's newly refurbished conference room, Mr. Darman suggested that a deposit fee—an idea long circulated in Washington policy-making circles—be proposed in the Reagan budget. A 25-cent fee on each $100 on deposit in banks and thrift institutions would raise about $6 billion a year, enough to finance bonds that would cover all thrift-institution losses.

At least one person at the meeting protested that the idea would spark a political furor because small depositors would gripe that they were paying for the mistakes of highflying financiers. But Mr. Darman favored the plan because it would sidestep Mr. Bush's no-new-tax promise and make it easier to pay for other campaign promises while still meeting the Gramm-Rudman law's budget-deficit target of $100 billion in fiscal 1990.

Refusing to go along, Reagan-administration officials argued that the plan would be a major change in the president's policies. So, the budget only briefly mentioned "insurance-related premiums," a euphemism for deposit fees, as one of several options for financing an S&L rescue.

Nevertheless, the Treasury continued to view the deposit fee as an option. Officials also considered levying a one-percentage-point fee on mortgages and diverting interest payments from the Federal Reserve as ways to pay for a solution to the problem without drawing money from the federal budget—two options later rejected.

Secretary Brady argues that the Treasury was trying to keep the cost of the rescue from draining money from other administration priorities. "Should we have one less child-care center, less money on AIDS research, or one less enterprise zone?" he says. "You have to make choices."

Normally, such an important issue would have been subject to a thorough White House review. But with President Bush not yet in office, the work fell to two former Harvard professors new to Washington and lacking political experience: Robert Glauber, slated to become Treasury undersecretary, and David Mullins, an acting assistant secretary.

"The people working on this were from the Harvard Business School," Mr. Griscom says. "That's great. They can give you the policy. But you can never separate the policy from the politics. The policy may be very sound, but you have to understand the politics."

Trying to cooperate with Congress, Messrs. Glauber and Mullins began briefing selected members of the House and Senate about several options, including the deposit-fee plan. The two officials made little distinction about levying the fee on depositors or on institutions. From a policy point of view, that may have made little difference, but, politically, the idea of making depositors pay was explosive.

The explosion came 10 days ago, when the Washington Post reported that the Treasury was considering imposing fees on depositors to finance an S&L bailout.

Administration officials assume that the leak came from the members of Congress they had been briefing. Once the story broke, the administration allowed itself, through an uncontrolled chain of events, to get locked into the idea. At 6 a.m. on the day the news came out, Treasury officials called White House staffers to alert them and warn that Mr. Brady had, by coincidence, agreed to appear on two morning TV shows. Mr. Brady intended to talk about leveraged buy-outs but instead found himself defending the deposit-fee option.

The White House also had scheduled for that same morning an interview in the Oval Office by a press "pool" of two reporters who were to question Mr. Bush for about 15 minutes as representatives of the White House press corps. The session was scheduled to illustrate Mr. Bush's intention to foster new openness with the press in his White House.

At 9:38 a.m., the two reporters began their discussion with Mr. Bush and soon asked him about the fee idea. Mr. Bush defended it as an "option" under consideration and insisted that it wouldn't be a tax. He likened it to a user fee, of the type tourists pay to use Yosemite National Park.

Just after 11 a.m. White House Chief of Staff John Sununu appeared in the White House press room to brief reporters. Mr. Sununu, a former governor of New Hampshire and another newcomer still learning the ways of Washington, had earlier scheduled the briefing as another show of openness. He thought he would mostly be discussing personnel moves, White House officials say.

Instead, he answered question after question about the fee and delivered what most reporters considered a defense of the idea on the ground that it would simply increase the premiums that S&Ls already pay for deposit insurance.

Though Mr. Sununu might have eased the controversy by describing some of the other options being considered rather than defending the depositor-fee idea in detail, White House aides now hint that they saw virtue in letting the proposal attract attention. The ruckus made other options on the administration's list appear more palatable, the officials contend. Still, the administration was immediately pummeled for defending an idea that was under attack from every quarter. "We Republicans think it's as dumb an idea as the Democrats do, says Sen. Jake Gorn, a Utah Republican.

To make matters worse, the administration, while trying in recent days to elaborate on other options, continues to support the fee idea. Just last weekend, Mr. Bush again defended it publicly, and Mr. Sununu, appearing on a TV talk show, insisted that it remains alive.

The White House refuses to dismiss the politically unpalatable plan partly because it doesn't want to be forced by outsiders to drop policy options before they even reach the president's desk. But the belabored defense of the fee also illustrates that both Mr. Bush and Mr. Sununu have a wide streak of stubbornness that makes them less inclined to cut political losses as quickly and deftly as Mr. Reagan and his aides sometimes did.

Some admire the administration's decision to avoid being stampeded. "The world wants to be critical of Brady and Sununu," says Rep. Jim Leach, an Iowa Republican. "They're wise to keep options open and present them to Congress."

In fact, Mr. Bush plans to meet this morning with congressional leaders, Messrs. Bush, Brady, Sununu and Darman met with eight industry leaders in the White House yesterday to hear their recommendations, and indicated they still hadn't made final decisions. Referring to the insolvent but still functioning thrift institutions, Mr. Bush asked. "What are we going to do about the zombies?"

To guide the plan through Congress, the Bush administration must meld its old Washington hands and the new faces with more savvy than it showed in the aborted deposit-fee plan. "I'm quite surprised, with all the Washington insiders on the Bush team, how they could blunder so badly, New York's Rep. Schumer says.—Paulette Thomas

[From The Washington Post, February 4, 1989]

DARMAN PUSHED FEE IDEA: BUDGET CHIEF SOUGHT TO SKIRT "TAX" LABEL

(By Paul Blustein and Kathleen Day)

Two Harvard finance professors, toiling in the Treasury Department, were the first administration officials to put forward the now-famous proposal of imposing a fee on checking and savings deposits. But Budget Director Richard G. Darman latched onto the idea of the deposit fee and developed a strategy to keep it from being called a tax.

Ever since a furor erupted last week over the deposit-fee proposal, questions have arisen over and why they failed to anticipate the overwhelmingly negative reaction. Now there are questions about whether the officals were motivated by a desire to achieve a tax increase in disguise.

Late last year, Darman and Treasury Secretary Nicholas F. Brady both were involved in an effort to insert the deposit-fee proposal into President Reagan's final budget according to administration sources. Their rationale, the sources said: If Ronald Reagan, the unquestioned leader of antitax sentiment, endorsed the idea, Bush might be able to get away with calling the fee a "user charge" for deposit insurance.

Other Reagan administration officials blocked the attempt to secure the outgoing president's stamp of approval. But new accounts of deliberations within the Bush camp suggest that despite the president's "read-my-lips" rhetoric against new taxes, his aides were advancing the proposal in part to help pay for this campaign promises on education, the homeless and other programs.

The story behind the deposit fee has emerged in a war of finger-pointing waged by officials who insist on remaining anonymous. Brady, who was accused by his critics of political naivete, was the first victim. The Washington Post reported last Friday that the Treasury secretary was a strong advocate of the fee idea and had urged the Office of Management and Budget to include it in the Reagan budget as an option for financing the rescue of insolvent savings-and-loan institutions.

Yesterday, the Wall Street Journal reported that the idea of imposing a fee of 25 cents to 30 cents on each $100 of deposit was "actually pushed first" by Darman, who is well-known for his Machiavellian stratagems. According to the Journal, Darman—who had only recently been nominated as budget director—attended a meeting at the Treasury Department late last year on the subject of S&Ls.

"Although some decried the [deposit fee] as political dynamite, Mr. Darman said it would finance a solution to the S&L problem and free up billions of dollars to pay for the 'kinder, gentler' programs that President Bush promised in his campaign," the Journal said. "And if President Reagan proposed it first [in his budget], Mr. Darman figured, the new president could escape charges of breaking his promise of no new taxes."

Sources familiar with the events in question said the Journal story was accurate in most respects. They said, however, that the first officials to draft a deposit-fee proposal were Robert Glauber and David Mullins, Harvard professors who have primary responsibility for the Treasury's thrift-rescue plan and who are expected to be named to senior Treasury posts soon.

Glauber and Mullins are academics, not political experts, and they had drafted the deposit-fee proposal as part of a series of options aimed at minimizing the cost of the S&L rescue to the government.

In that connection, the pair also drafted a plan to pay for the rescue by raising the premiums that thrifts and banks pay to insure deposits. As far as they were concerned, the two proposals—charging the institutions, and charging individual depositors—were "variations on a theme," one source recalled. But politically, the two options were worlds apart; levying a fee directly on depositors was much more likely to evoke anger from the public.

Once Darman had given the idea his blessing, Brady brought it to the OMB—an agency then still being run by Joseph Wright, Reagan's last budget director. Top OMB officials were horrified by the idea, and denounced it as a violation of the Reagan-Bush antitax stance, sources said. The Reagan White House backed the OMB.

Brady lost the battle to insert the proposal in the Reagan budget, but he has continued to support the deposit fee as an option for Bush to adopt. Yesterday, Bush said that Brady will present him with a list of options and that he'll reveal his plan next week.

Sources said that last night the White House was leaning toward issuing 30-year bonds to raise about $25 billion a year for several years. The bonds would be backed by the S&L industry and so would not appear as a spending item in federal budget calculations. The $7 billion to $8 billion in interest on the bonds also would be raised outside the budget by increasing the fee that banks and S&Ls pay for federal insurance on deposits.

Bush met yesterday at the White House with Democratic and Republican leaders of Congress to hear their ideas on the problem.

After the meeting, Sen. Jake Garn (R-Utah) said the fee on savings deposits "is not a live option" even though the White House has not ruled it out. But other congressmen have said they would consider an increase in the insurance premium charged to banks and S&Ls just as much of a tax.

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF MANAGEMENT AND BUDGET,
Washington, DC, March 31, 1989.

Dr. LEONARD WEISS,
Staff Director, Senate Committee on Governmental Affairs, Washington, DC.

DEAR LEN: Enclosed please find an edited copy of the testimony from my confirmation hearings. I apologize for the delay in returning it. I've been swamped, as you know. And since the text is a few inches thick, and the task a bit tedious, I've kept putting it aside. Even now, I have to confess, I've not reviewed the text as carefully as I should. (It has been edited for grammar, etc. on my behalf.) But I feel obliged to get it back to you.

In reviewing the testimony I have looked at the pages you called to my attention: pp. 151-153 and 18-23. You suggested that I comment on these in relation to two newspaper stories concerning my role in the development of the Reagan Administration's approach to the S&L problem.

My recollection is not exactly the same as that represented by the stories, although there are significant elements of truth to the stories:

It is correct that I was invited by Secretary Brady to attend a couple of December meetings on the S&L issue. In response to his request, I did attend. As I understood them, the meetings dealt principally with options that were to be for President Bush's decision (i.e., for decision after January 20), not President Reagan's.

One story says that Messrs. Glauber and Mullins were the first to develop the now-notorious deposit fee idea—and that I then "latched onto" it. The other suggests that I brought it up. My own recollection is that their initial presentation of options suggested the possibility of such a fee, but was not explicit. I believe I then asked if they had analyzed it, noting that it had some degree of legitimacy as an analytic matter. They said they had considered it, and seemed glad that I had asked. I believe they then asked if I thought it would violate the "no new taxes" pledge. I said I thought not—that technically it could clearly qualify as a "user fee" (insurance premium). I said also, however, that I wasn't at all sure how it might be received politically.

I do not recall arguing that this fee could finance "kinder, gentler" programs (as suggested). I doubt that I did so. At that stage (and still), I would have been happy just to escape with a break-even budgetary approach to financing the S&L resolutions.

I do not recall arguing that the fee should be included by President Reagan as part of his budget. I do not believe that I did so. My recollection is that when I became involved, the Reagan administration had already decided upon a set of specific plug numbers to include in the Reagan budget for S&L resolutions. I am virtually certain of this. The only issue I recall being "live" for consideration by the Reagan group was a possible directive to the Secretary of the Treasury to study the S&L issue and report to the new President (after he would take office). I did suggest (or agree) that such a directive and study should include the deposit premium idea as one among the many options to be reviewed for consideration by the new President. I believe I also suggested that the analysis should include consideration of a modified form of the FICO bond system.

One story implies that I may have suggested a fee of 25 cents per $100. I made no such suggestion. Nor do I believe I settled in my own mind on a preferred option—whether general or specific—as of the time the Reagan budget was being prepared.

In my contacts with OMB during the period when the Reagan budget was being prepared, I do not believe I ever expressed a policy preference with respect to the S&L issue—and I certainly did not argue for the inclusion of a specific financing and reform proposal in the Reagan budget.

In short, the stories are overwritten as to my role. You will recall, of course, that they were written in a context when some people were looking for others to blame for what was then a suddenly rather unpopular idea. I may deserve a share of the blame (or credit!), but nowhere near as much as was attributed to me in the stories.

As to the relationship between the foregoing comments on the articles and my testimony, please also note:

I do not believe the testimony is inconsistent with the facts of my involvement in the Brady S&L meetings—although I must confess I did not have the Brady meetings or the S&L issue in mind at all when I responded to the questions.

As is clear from the testimony, I tended to think of Secretary Brady as a Bush official—more on the incoming team than the outgoing. When I was asked about "word from OMB officials" that Bush officials helped form Reagan decisions, I thought naturally of my own involvement with OMB officials. I correctly reported that I dealt only with Joe Wright and John Cogan, and that I did not suggest that they should change a decision (or any other such) with respect to the Reagan budget. I was attempting to address the question of whether I might have "exercise[d] decision-making authority" in the shaping of the Reagan budget—and I noted (accurately) that I had taken pains not to do so. And as to the relationship of this point to the news stories, I would have thought it obvious that had I really wished to get the Reagan Administration to do something on S&Ls, I could easily have tried to influence OMB (allegedly an obstacle to action). I did not do so.

I hope this helps clarify things satisfactorily. Thank you for affording me the opportunity to do so.

With best regards,

RICHARD G. DARMAN.

TESTIMONY OF THE NATIONAL DEMOCRATIC POLICY COMMITTEE ON THE HEARINGS TO CONSIDER THE NOMINATION OF RICHARD DARMAN AS DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET

Presented To:
The Senate Governmental Affairs Committee

January 19, 1989

To the Honorable Members of
the Senate Governmental Affairs Committee,

The National Democratic Policy Committee (NDPC), an independent political action committee founded by former Democratic Presidential candidate Lyndon H. LaRouche Jr., strongly urges that the nomination of Richard Darman to become the director of the Office of Management and Budget be rejected.

Mr. Darman has been associated, and in all his public remarks to date, continues to associate himself with the policies that have created the pre-conditions for the worst financial blow-out in the history of the U.S. More and more observers are pointing to the accumulation of both domestic and foreign debt in the U.S. as the flash point for a financial catastrophe only rivalled in its potential for unleashing suffering on humankind by the economic collapses which preceded the plagues that wiped out half the population of Europe in the 13th and 14th centuries.

To confirm Mr. Darman to the post for which he has been nominated would only be to confirm that the Senate shares in the culpability for the coming catastrophe. This will be a fact not soon forgotten by whoever survives this coming crash.

Since the collapse of the Mexican economy of 1982 signalled the onset of the coming Great Depression, the U.S. administration has survived with a combination of stalling tactics and generous infusions of support from, principally, Japan. In particular, following the inprecedented stock market crash of October 19, 1987, another harbinger of the coming Great Depression, the Japanese have played an extraordinary role in proping up the U.S. economy through the 1988 election year, in order to insure the election of their preferred candidate, George Bush.

However, during this entire period, neither Mr. Darman nor any of his associates in the Reagan administration have undertaken any policies to indicate they are either capable of, or inclined to, prevent the inevitable crash. Instead of taking steps commensurate to the enormity of the problem -- such as insuring a flow of mass doses of low-interest new credit, designed for both domestic and foreign infrastructure development and high-technology industrial modernization and not for speculative investment or debt repayment -- Mr. Darman has identified himself with a package of policies that are insured only to make matters even worse when the day of reckoning comes.

In particular, Mr. Darman shares the widely-held, deluded view that band-aid measures to reduce the U.S. federal government deficit will allay the fury of the coming crash. He is dead wrong. Such an incompetant policy will only make matter worse by helping to insure that the society will be incapable of handling the social dislocation created by the mass unemployment, food shortages and shortage of vital services that the crash will bring about virtually overnight. Equally wrong, by focusing of federal budget deficit reduction, Mr. Darman is contributing to the misdirection of the focus for solving the deepening problem, thus insuring that figures in the government and public at large will be caught off guard until it is too late to act effectively.

Aspects of the lunacy of fixating on the federal budget deficit in times like these have been addressed by other voices with vast experience in government, such as former Secretary of Defense Caspar Weinberger. Throughout his tenure at the Department of Defense, Secretary Weinberger warned against placing fiscal needs ahead of defense needs as defined by a candid threat assessment of the enemies' capabilities and our real national security needs.

In an article that appeared in the January 23, 1989 edition of Forbes Magazine, which he now publishes, Secretary Weinberger gave a particularly stinging critique of those, like Mr. Darman, who would place fiscal considerations ahead of those of national security. "The real question is not, 'Why can't we cut our defense budget?' but 'Should we?'," Weinberger wrote. "The answer to that depends on how much, and whether, we still value our freedom and the peace that comes only with strong military forces, forces we cannot secure by balance-sheet-oriented cuts that ignore our defense needs."

Weinberger ridiculed the two members of the Congressional Budget Office who testified before the National Economic Commission on its recommendations for defense budget cuts. After presenting a long list of proposed cuts, they conceded, "The question of the defense needs is beyond the scope of this paper."

Mr. Darman, by his own public statements, fits the profile of the person who makes budget cuts while conceding that the question of defense needs "is beyond his scope." By such a standard, he is inherently unqualified for the post for which he has been nominated. For not only in the area of defense needs, but also in the areas of collapsed domestic infrastructure, family farming and rates of modernization of domestic industry, he is unqualified to assess the real needs and to take the steps to prevent the coming Great Depression from wiping them out entirely.

Attached is a document recently authored by Mr. LaRouche on the economic options currently facing the U.S., which define the qualifications for the office in question. Thank you.

WHY TOKYO CAN NOT BAIL OUT BUSH:

by Lyndon H. LaRouche, Jr.

Once upon a time, in a mythical nation, the population was being decimated by a cholera epidemic. Curiously, none of the few physicians in the country were permitted to interfere with the progress of this epidemic. The population and government had great faith in their witch-doctors; the physicians were told not to interfere with local customs. Today, that nation is to be found nowhere on the map.

During 1988, and recently, Japan has acted massively to delay a new U.S. financial crisis. This was done for the included purpose of ensuring that George Bush was elected in November 1988. In Tokyo's view, Bush represented the prospect of institutional stability of the United States. Tokyo has continued to bail out the U.S. since the November elections, and is inclined presently to continue doing so for months to come.

Were Tokyo to cease supplying absolutely massive financial bail-out for the U.S., U.S. financial markets would go quickly into a tail-spin as deep as that of October 1987, and probably deeper. Any margin the new administration has for continuing the Reagan administration's post-October 1982 monetary stalling-tactics, depends on massive financial bail-out sums from Tokyo.

The question is: How long can Tokyo continue to bail out the U.S.? Some around Washington think: perhaps another twelve months, probably at least six. Both Tokyo and Mr. Bush's Washington are overconfident. I agree, that is possible for Tokyo to postpone the next major U.S. financial crash for as long as six months, even slightly longer; however, that possibility depends upon certain factors outside the control of either Tokyo or the Bush administration.

There are two problems. Presently, Mr. Bush's Washington, and Tokyo, are considering only one of these problems: How long can the next U.S. financial crash be postponed, even by aid of the most drastic, Japan-funded bail-out measures? The second is, of course: How can the problem be solved, rather than merely delayed?

The administration begins with the same tactic which has used by the Reagan administration since the outbreak of the Mexico crisis of 1982: stall, stall, stall, and stall some more. Apparently, Mr. Bush's circles include those who are aware this stalling-game can not be continued indefinitely: the indications we have concur with what we hear from relevant levels in Tokyo: The new administration is looking for a period of continued stalling of between six to twelve months, while it lines its financial-policy ducks up in a row.

The unfortunate facts are, first, that the new administration may not have six months margin for stalling. Second, so far, what is being proposed as prospective solutions, around the incoming administration, is cures as bad as the disease: witch-doctor stuff.

Furthermore, the kind of stalling which the Reagan administration has done over six years, and which the Bush circles project for another six to twelve months, carries a penalty.

The method of stalling used, is to delay the inevitable day of reckoning by methods akin to proverbial Russians throwing babies out of the troika to the wolves: using up precious financial and economic resources, thus making the problem much worse, simply to buy delay. Reagan administration stalling has transformed the still-manageable international financial crisis of 1982 into a crisis which has become today absolutely insoluble within the terms of the existing monetary and financial system.

All of the necessary measures for solving the international financial (debt) crisis of 1982, were detailed in my August 1982 Operation Juarez report. Had the same resources used up since 1982, in the ultimately futile stalling-tactics, been used instead as means for solving the problem, the world today would have the entirety of this financial crisis behind us.

Operation Juarez is still today implicitly the model for the needed general monetary, financial, and economic reforms. The difference is, back then the measures of reform required of the United States were chiefly limited to matters of foreign policy; today, the measures proposed to Central and South American nations, must be taken internally by a U.S. whose financial and economic crisis is analogous to that of Mexico in 1982. Today, under present international monetary structures, the U.S. could never meet its combined domestic and foreign, public and private debt-obligations.

We shall report, next, on the reasons Tokyo might be unable to delay a major U.S. financial crash at any price. Then, we turn our attention to the witch-doctors, the so-called economists.

Popping the Big Bubble

The underlying problem is, that the international monetary system as a whole is the biggest John Law-style financial bubble since the great financial crash of fourteenth-century Europe. The her leading problem is, that certain European-based fincier powers intend to pop the bubble, as a means for breing the sovereignty of the United States, and for putting he U.S. itself under the same general kind of IMF "condionalities" now applied to debt-ridden Third World nations The key additional problem is, that certain powerful elemts of the U.S. establishment are prepared to sve as accomplices in this sort of operation.

This set of circumstances ses the question, whether the combined resources of a Bus administration and Tokyo were sufficient to resist a reay determined effort by the relevant European financier fors? The plotters against the United States have the advaage of reversed financial leverage.

In brief, if the European inancier-plotters behave themselves, Tokyo subsidies mit enable the Bush administration to stumble throu an additional six months or even slightly longer, withou a catastrophic financial crash. However, if the Europe plotters proceed, with aid of critically-placed accompces inside key U.S. institutions, Tokyo lacks the sources to delay such a financial crash even during thehort-term.

The magnitude of the finanal bubble is the key to this analysis. Measure the relevantevelopments in the U.S. economy, since the fourth quarter 1967, s follows.

Begin with standard per-cata content of market-baskets for the average of the years 1967-10. Limit the content measured to physical content of producer and households'market-baskets, respectively. Include as caterries of content net quality of depreciated improvements in phycal investment in plant, machinery, and equipment, and net ality of depreciated improvements in basic economic infrastcture.

Using these standard markebaskets as measuring-rods, define the changes in per-capitnet physical product of the U.S. economy over the period 1970-19. Measure this both per capita and per hectare: net physical tput, both per capita and per hectare.

Determine the current pric of those market-basket contents during each of the years duringhis interval.

Define the combined publicnd private debt of the U.S. per capita and per hectare. Definthe combined public and private debt-service per capita and perectare.

Compare the gross price-vae of physical output as measured in terms of 1967-1970 market-baskets (without the hoax of quality adjustments used by the Department of Labor), with the percentile of this output (income) allocable to debt-service.

Adduce the trend-lines so defined, to show rates of change, and rates of rate of change.

That defines the financial bubble in the simplest possible competent terms of reference. That defines the U.S. domestic economy as presently operating way below the break-even point, and falling rapidly.

This also shows that all official reports of U.S. economic growth since October 1979 have been false. In physical terms, no net economic growth has occurred during the past ten years. If we take fully into account the depletion of basic economic infrastructure, the economic contraction has been continuous since approximately 1970.

What has been reported as growth is increase of Gross National Product (GNP). GNP is a very misleading yardstick, since it measures only the net money-difference between purchases and sales: so-called Value Added. (This does not include households, which, if taxed in the way businesses are, would have usually no income-tax liability.)

The fallacy of GNP measurements is illustrated by the following hypothetical case:

Imagine the case, that General Motors shut down all of its manufacturing and related capacities, but reemployed all of its production employees in sales and administraton at the same wages they had received as factory employees. Presuming General Motors sold its administrative services to earn the same margin of net operating profit it had gained while still producing, the Value Added of General Motors would be approximately the same as before the change.

This result might satisfy General Motors' stockholders, but what would be the effect upon the U.S. economy as a whole?

Although the illustration is hypothetical, what it illustrates is not. This example illustrates the kinds of shifts in employment which have occured within the U.S. economy as a whole since approximately 1970. The net result is that indicated by the outlined calculations, above.

From firm to firm, the GNP accounting causes the kind of result shown in the hypothetical General Motors case to be a contribution to GNP by that firm's nominal Value Added. The sum-total of those individual results, for the economy as a whole, is, in reality, a disaster. Something is very wrong with the GNP method of national accounting.

Admittedly, each year, various relevant official and private agencies combine their efforts to refine the raw GNP estimates. Inflation-adjustments are most notable. The results of the outlined calculations, above, should be compared with the annual deflators used by official agencies. More than ten times $5,000 is needed today, to supply the same real level of income after deducting debt-service charges that $5,000 annual income of households represented in net purchasing power in 1950. By the same standard, the net rate of inflation has risen under the Reagan administration, and has never fallen.

To the degree that inflation has appeared to level-off under Reagan, this has been accomplished in ways which conceal apparent inflation-rates at the store, by reduction of payments against the actually incurred costs of production. Cutting down on needed repairs and other maintenance of capacities actually used in production, is one way of concealing inflation in the short-term, to have the effect of concealed inflation erupt in full, accumulated force, at a later time. We explain, after a few more needed remarks on GNP accounting as such.

These wide margins of error in official estimates for inflation, are caused partly by politically-motivated faking of data. The more important factor is, as we have indicated, and for the reasons we have indicated, the intrinsic fallacy of measuring national growth in GNP.

Concentrate now on the ratio of the two functions we outlined above: increase of debt and debt-service rates, per capita and per hectare; change in physical output, measured in market-basket units, per capita and per hectare. Look more closely at the components of cost in the production of those market-baskets.

We have already indicated the immediate problem posed by the ratio of these two functions, to be the impact of debt-service margins on the money-value of actual market-basket content. How much can debt-service payments by farms, industries, and households be increased, without causing the physical economy to collapse?

During the recent eighteen years, we have depleted basic economic infrastructure, by lack of repairs, XXXXXXXXXX today's repair-bill, for restoring quality of infrastructure, per capita and per hectare, to 1970 levels of functional quality, would be approximately $4 trillions. Farms and manufacturing have suffered a net contraction-collapse of a similar kind and degree. A very large part of what the U.S. economy has treated as annual income, over the past eighteen years, has been spending used-up past capital investments for the current cost of livng. We have been counting as current incomes the bills we have not being paying for repair and maintenance of those capital investments on which the continued operation of the economy depends.

This recalls the looting of the New Haven railroad, some decades back.

During and following World War II, interests including the Dumaine family had rebuilt the New Haven to financial and operating respectability. Then, came a group of corporate raiders, who baited the hook for New Haven stockholders with promises of larger dividends.

The procedure was simple. Maintenance is the big annual bill of any railway --or airline-- which wishes to continue in sound operations. The corporate raiders, after taking over the New Haven, slashed maintenance. Rolling-stock which needed repairs, was simply abandened on sidings; other "cost cuttng" measures were of a similar nature, done in a kindred spirit, and with a kindred ultimate effect.

The paid-out dividends increased; the price of New Haven stock rose accordingly. The raiders unloading stock-holdings at fat profits, and then left a pile of wreckage behind them which has not been repaired since.

Such is, in net effect, the apparent growth of the U.S. economy as a whole during the past eighteen years.

"Deregulation" is an example of the same thing done to the New Haven railroad. Declare a "free market." Force the prices of the industry down. Meet the resulting reduction of unit operating income, by looting depletion funds which should have been spent on maintenance and replacement of obsolete equipment. So, we have commercial airline craft operating beyond the extremes of their expected useful life, and more costly to maintain properly than the cost of acquisition of a new replacement.

The same was done to U.S. agriculture. Drive the price of argicultural product below the farmers' net cost of production, and keep this up until mass-foreclosures take over.

On paper, the zooming percentile of debt-service demands on income, per capita and per hectare, could be met by savage reductions in payments for costs other than debt-service. In reality, it is not so simple. The added debt-service margins must come from old-age pensions, wages and salaries, maintenOance, and direct non-labor operating costs. When the ration of income after payments of taxes and debt-service falls below the level of real purchasing power needed to maintain operations, operations soon cease.

In a national economy, the economy as a whole can continue to function, on a reduced level of output, but only up to a point.

At a certain point, the closing down of firms goes beyond tearing off flesh, and digs into bone. Key categories of industry simply disappear entirely. When those bottlenecks develop, the economy as a whole ceases to function. For example, imagine the effect of a widespread collapse of the transport industry, or, as is already looming, the production of power drops to levels below the minimum required for industry and other functions in entire regions of the nation. These are only examples of the numerous bottlenecks now threatened with collapse. When a few key such bottlenecks are collapsed, this sets off a chain-reaction collapse throughout the economy as a whole.

The U.S. economy is very near to the point such a chain-reaction erupts in the physical economy as such.

We have reached the point, that the current rate of debt-service can not be met without bringing the U.S. physical economy to, or perhaps even past the brink of chain-reaction collapse. That is the price of the stalling which the Reagan administration has done during the 1983-1988 interval.

When the point is reached, that @ational economy depends upon increasing its per-capita debt-service as a precondition for monetary stability, and yet in which increases in debt-service ratios threaten to set of a chain-reaction collapse in the physical economy, the expansion of the financial bubble has reached a critical threshhold. We are at, or very near to such a critical threshhold now.

This brings us to the operations planned by certain wicked financier gentlemen in Europe. The short-term factors to be considered, include the price of the U.S. dollar, the prices of U.S. public and private bonds, and other financial assets which are among leading negotiables in world markets. Another short-term factor, isn annual inflow of over $100 billions in foreign borrowing. A shaky U.S. dollar means that those inflows will tend to be denominated in foreign currencies, not U.S. dollars. We borrow from such sources as fiduciary accounts in Swiss banks, and incur liabilities denominated in Swiss francs, d-marks, yen, and so on. What, then, is the effect of a drop in the price of the U.S. dollar? What is the effect upon, not only the more than $100 billions a year of new such borrowing needed, but the current and principal obligations of the carried forward debt of the same kind from preceding years?

What if the U.S. dollar takes a nose-dive, at the same time that U.S. public and private bonds drop similarly, and some major troubles occur in the highly volatile sector of Leveraged Buy Outs (LBOs)? A run against the U.S. financial markets under those conditions, is something which would overwhelm the combined resources of the Bush administration and Tokyo. On that account, we are already looking down the barrel of a financiers' gun.

The intent of the relevant european financiers, is not to go all the way with a run on the U.S. dollar. Rather, the moment that begins to occur, both the U.S. and the relevant euroocean financier-sharks go into "crisis management" negotiations. The foreign interests will agree to take te worst immediate pressures off the U.S. financial system, on conditions.

Those conditions signify putting the U.S. government under IMF "conditionalities," in the manner already experienced by nations such as Mexico. The Federal, state, and local budgets will be set by foreigners. A foreign-dictated "incomes policy" will be imposed upon the U.S. private sector. And, so forth and so on. In short, the U.S. government will cease to be a sovreign government, and the U.S. will cease to be a sovreign nation. The U.S. government will be a partner in the international monetary system, but the power of the U.S. government will be transferred to that partnership.

Under those imposed "conditionalities," the rate of U.S. debt-service payments per capita will be greatly increased, even though this means a breakdown in the physical economy of the U.S. That sort of dictated "recovery program" is an imitation of what Nazi Finance Minister Hjalmar Schacht did in pre-World War II Germany, This is the same Schachtian policy which caused Nazi Germany to adopt a murderous system of slave-labor concentrstion-camps. Josef Goebbels' diaries contain ample explicit recording of Adolf Hitler's remarks to precisely that effect.

That occurrence, is the beginning of the end of civilization on this planet.

The Two Schools of Political-Economy

If there is to be a cure for the terrible dangers now facing the U.S. and other economies, we must be assured that the shaping of economic policy is taken out of the hands of the relevant local witch-doctors, the so-called professional economists and kindred experts of similar habits and opinions. For this to occur, relevant government circles and others, must come to recognize that these putative experts are indeed no better than witch-doctors.

The simplest, most direct, and conclusive manner, in which to demonstrate this fact, is a summary of the history of political-economy. The use of this sort of proof is made mandatory by the nature of the claims put forth by the putative economits themselves. For example, they claim that their opinions served as the basis for the successful periods of development of the U.S. economy, from the beginning. That is flatly not true. To similar effect, they claim, as Karl Marx did, that economic science begins with Adam Smith; that assertion is absolutely false, and known to be false to anyone who knows even the barest facts about the history of the subject.

The beginnings of a systematic notion of economy in western Europe were the famous census of Charlemagne. Matters did not progress above that general level until the beginning of the fifteenth century, in and around Florence, Italy.

The first modern economist was a Greek celebrity attached to the retinue of Florence's Cosimo the Great, George "Plethon" Gemisthos. Around the A.D. 1439 Council of Florence, a new quality of statecraft emerged, leading into the rise of a branch of study of statecraft car3d camerakism, during the seventeenth and eighteenth centuries, most notably. Cameralism is the generic name of the period for the successful practices which the Massa-chusetts Bay Colony built up during the decades preceding the governorship of Andros. The policies of the young U.S. republic respecting money and credit, for example, were reaffirmations of the principles of practice from the pre-Andros Massachusetts Bay Colony.

Meanwhile, during the last quarter of the seventeenth century, there was a revolutionary advance in political-economy, Leibniz's elaboration of a science of pphysical economy. The influence of this was embodied in U.S. Treasury Secretary Alexander Hamiltn's Dec. 1791 Report to the Congress, On The Subject of Manufactures. It was then that the name American System of polit-ical-economy was minted.

Adam Smith appeared very late in the history of political-economy. He had been an obscure scottish professor of David Hume's empiricism, until he was picked up, in 1763, by the Second Earl of Shelbourne, and assigned to travel to the circles of Hume's and Voltaire's Geneva and Physiocrat cronies, to pick up some rudiments of their brands of political-economy. Shelbourne, perhaps the most evil man in England, second to his protege Jeremy Bentham, during the late eighteenth century, was a chief political representative for the interests of the East India Company, who managed British politics by buying up the relevant figures, with funds channelled chiefly through Bnk. The purpose of the project to which Shelbourne assigned Adam Smith, was to elaborate a scheme for ruining the economies of both the North American British colonies and France.

The approved project was presented in 1776, as the East India Company propaganda-tract against the Americans, Adam Smith's Wealth of Nations. Thus, the chief proximate cause for the U.S. War of Independence was the set of East India Company policies for which Smith's Wealth of Nations was an apology.

The tack taken by Smith became the starting-point for the East India Company's training-center for its agents, the Haileybury school. Followers of Smith and Jeremy Bentham at this school included Thomas Malthus, David Ricardo, James Mill, and ohn Stuart Mill. In practice, it also includes the Karl Marx who hated the American System, and praised Smith et al. as "the only scientific" economists before himself.

By approximately 1825-1830, all of the contributions of leading French and German economists up to that time, had been formally consolidated under the single roof of American System of political-economy. The cameralists generally, Leibniz in particular, were incorporated in the combined contributions of Bejamin Franklin, Hamilton, the two Careys, and Friedrich List.

Adam Smith was introduced to the U.S. during the late 1790s, by the circles of the leading Barings bank representative in the U.S., Aaron Burr. These circles included the East India Company's partners in the China opium trade, the Perkins syndicate of Massachusetts, the Russell syndicate of Connecticut, and the Astors of New York. The leading advocate of Smith's dogma in these circles was the Albert Gallatin who became the power behind the throne in the Jefferson and Madison administrations. However, the economic disaster which Jefferson's and Madison's support for "free trade" left behind, prompted the U.S. to return to the American System under Monroe and Quincy Adams. The Amerycbn System was the policy of Henry Clay's Whig Party, and of Abraham Lincoln.

The influence of the American System waned rapidly after the late 1870s implementation of the U.S. Specie Resumption Act, as monetary and financial control over U.S. internal affairs came increasing under the foreign domination of Anglo-Dutch and Swiss bankers, with the Anglo-Dutch predminating. The control of the political power represented by great fortunes fell into the hands of those closely tied to the East India Company's successors abroad.

Around the turn of the present century, the leading universities of the U.S. veered away from their earlier close ties to France and Germany, especially away from German ties, and modelled themselves as virtual extensions of Oxford and Cambridge.

Under these circumstances, the institutions of finance, the great concentrations of family wealth, and the principal banking centers, represented the Haileybury tradition In dogmas of economic practice. This transformation was felt also in the Washington governmental bureaucracy. As new forms of U.S. central banking emerged, consolidated as the Federal Reserve under President Wilson, U.S. financial and monetary policy was thoroughly dominated by the tradition of Haileybury.

In addition to these influences on cultivated economic thought in universities, government, finance, and so on, the 1890s saw the beginning of a powerful direct influence of British Fabian socialism, including such influential figures as John Dewey, Charles A. Beard, and Walter Lippmann. For these socialists, the defaming of the U.S. founding fathers were a favorite sport.

Although the heritage of the American System was progressively undermined during the past hundred years, its traditions did not begin to die out within U.S. agriculture and industry until the beginning of the great radical "cultural paradigm-shift" of 1963-1970. The popularity of President Kennedy's space-program and investment tax-credit measures represents, to the present date, the last gasp of the American System tradition of commitment to capital-intensive modes of scientific and technological progress. As the barbarian hordes from institutions such as Harvard Business School replaced engineering-minded industrial management in major manufacaturing firms, and as the influence of both "post-industrial" utopianism and the radical counterculture moved in, then, and only then, was the last significant vestige of the American System removed as a factor in national policy-shaping.

Exemplary of the conflict between the economists and the industrialists, was the justifiedly contemptuous rejection which the new-fangled art of Operations Research found so quickly among its industrialist clientele. The conflict between "Wall Street" and American industrial management, put most U.S. patriots on the side of the industrial managers. As an industrialist, one "had to learn to get along with Wall Street," but the arrival of the bankers' team, and the presence of the bankers' special, designated persnality on the roster of leading corporate officers, brought the underlying policy conflicts to the surface often enough. To the industrialists, the professional economists were as visitors from an alien world; the Operations Research funny types were what the industrialists distrusted in the professional economists, expressed in a concentrated way.

The successful engineering-minded industrial manager of the 1940s, 1950s, and 1960s had an innate professional grasp of the ABCs of economic science, of which the professional economists of then and today are incapable. In those days, despite the rule of Wall Street over corporate finance, the day to day job of producing a salable product was a matter of applying the principle which Henry C. Carey elaborated as "economy of labor:" the use of fostering of scientific and technological progress, to produce a product of equal or better quality at a lower real cost.

They understood that increasing the capital-intensity of investments in productive capacity, and employing labor with greater cultural potential for assimilating rapid technological advances efficiently, were the essence of successful production in general.

In real terms, increased capital-intensity signifies, on the scale of the economy as a whole, increasing the percentile of the labor-force employed in producing producers' goods, relative to employment in production of households' goods. Since producers' goods, the machine-tool sector most emphatically, is the transmission-belt by which technological progress is introduced to the productive process generally, the manufacturer's cost of possession of a usable improved, higher-priced machine-tool means, in general, a net saving on combined costs of capital and labor for a unit of physical output.

That example illustrates what ought to be recognized as the manner in which the American System's tradition was maaintained in the practice of good industrial management even during the two decades following World War II. It was not until the Johnson and Nixon administrations, that the professional economists began to take over the shaping of national economic policy in depth. The result of their increased influence has been cumulatively a national catastrophe.

In summary of this point, an economist typifies those who study how to make money, without the least interest in discovering how to earn it.

Thus, in modern history, there are two mutually-exclusive currents of thought on the subject of political-economy. The current which expresses those views responsible for the rise of productivity during the past six hundred years, is that associated with Leibniz and the conceptions incorporated within the American System of political-economy. The opposing view is rooted in the tradition of Chaldean usury, as reflected in the Haileybury tradition of Adam Smith et al. Thie latter view, when influential, has invariably produced disasters.

What Is Economics?

The two views outlined, represent opposite starting-points for the very definition of "economics." The American System developed out of the kind of emphasis on physical productivity associated with Leibniz's science of physical economy. The views of Adam Smith and the utilitarians, start from the assumed pre-existence of money.

Unfortunately, cultish money-theories are not the exclusive province of the professional economists. Whoever confesses himself a defender of the gold-reserve system of central banking, will soon find himself besieged by querelous packs of gold-exchange fanatics, bimetallists, and the like. To similar effect, the lunatic belief that money can earn wealth by virtue of some potency intrinsic to money as such, is widespread. The folly of belief in "magic of the marketplace," is very widespread, which is why disastrous policies premised upon that blind faith were so widely tolerated.

So, the myth of money must be addressed, head-on, if we are to free this nation of the ruinous pack of policies leading us to perdition.

Contrary to Karl Marx and his Haileybury predecessors, no form of currency, including coin of precious metals, ever functioned as money within an economy, except in the implicit mode of a negotiable bill of exchange. The difference between coin and paper currency is their relative values when they cease to be used as money.

Our earliest detailed knowledge of the history of money dates from approximately the fourteenth century B.C. The evidence is heaps of baked-clay cuneiform tablets and their corresponding envelopes, unearthed from what were ostensibly the mercant's quarters of sites of old Hittite cities.

That was not the very beginning of what became modern financial systems; but, records dating from earlier times are either lost parchment documents of the Caananites (Phoenicians), or are mislain among unsorted heaps of tablets which poorly trained Biblical archeologists unearthed in Mesopotamia.

However, we know enough about the usurious practices in early mesopotamian cultures, beginning with the Chaldeans, to assess the implications of the collection of cuneiform bills of exchange from the Hittite site.

The origin of paper money, is nothing more than as a form of negotiable bill of exchange. Coin is no exception to this rule; to the degree that coin functions within an economic process, it functions only in the form of a negotiable bill of exchange. The fact that coins made of precious or valuable metals might have an economic use other than as money, has something to do with the use of such coins as a form of negotiable bill of exchange, but that is the only bearing of the minting of coins from precious or valuable metals. The variants of the populist idea, that paper money ought to be limited in issue to a total denomination not exceeding the price of a hoard of coin or bullion, are nonsense.

A negotiable bill of exchange has no rational function within an economy, except to facilitate the purchase and sale of physical goods. Although services may be purchased, one purchases services by tendering the means by which the seller of services may secure physical goods. This latter observation might be contested by those unfamiliar with rudiments of economic science; the principle involved is an important one, seldom known, and of general relevance here.

Many contemporary textbooks attempt to define "first principles" of economics in terms of exchanges among two or more persons. As implicit in the outlined calculations earlier, and in several illustrations supplied, it has been illustrated that the study of economic processes must proceed from treatment of the whole of the economic process as primary, and the function of the individual person and transaction defined always in immediate reference to the whole economic process taken as a functionally indivisible whole.

For example, it has been calculated by one among the author's associates, that if we might assume that hypothetical "simple hunting and gathering societies" existed during some primeval cenozoic period, the average amount of such cenzoic wilderness's land-area required to sustain an average individual in a most marginal and precarious existence, would have been approximately ten square kilometers. That would put a ceiling upon the living human population, at approximately ten millions individuals.

The implications of that observation are summed up, by noting, that in terms of state-of-the-art technology available for general employment at the beginning of the 1970s, this planet could support a population of between fifteen and twenty-five billions persons, at a standard of life comparable to that in the advanced industrialized nations of that time. Respecting more recent millenia, especially the last 1,000 years of western Europe, parish records and kindred sources afford us an increasingly precise estimate of population-levels and their demographic characteristics.

Using modern language, the growth of actual populations is associated with the increase (and occasional calamitous decrease) of a magnitude best described as potential population-density. The overriding determinant of potential population-density, is scientiic and technological progress. So, since the hypothetical early-cenozoic condition of society, mankind's potential population-density had increased by more than three decimal orders of magnitude by 1970, with the prospect of a possible increase of more than an additional order of magnitude within the term of less than a hundred years following that.

It happens, that the generation of a single idea, by an individual, which idea has the character of a scientfic discovery, implicitly increases the potential population-density of the entire society. For that and related reasons, economic science begins with the notion of the causal correlation between potental population-density and scientific and technological progress.

On this account, studies of animal populations are irrelevant to study of society, or of individual human behavior. It is the self-developing characteristics of society which are elementary to the definition of society itself. It is the relationship between the creative powers of the individual mind, and changes in potential population-density, which is the essential function within economic science.

We define an economy properly by regard for two possible definitions. As economy in general, as distinct from a national economy, an economy is approximately a self-contained process, an approximately self-contained process. Today, when the functional interdependency among national economies is so much developed, no national economy is large enough to be a self-contained economy. National economy is defined by the sovreign, or relatively sovreign authority of the state over all economic processes contained within it. The role of national currency, is exemplary. In practice, economic science takes both notions as interactive: the economy as defined by minimal extent of an approximately self-contained process; the economy as a national economy. In the typical case today, the bounds of national economy define a special domain, with distinctive characteristics of functioning, within a larger scale of economy defined as an approximately self-contained process.

For such reasons, the best rule-of-thumb way to examine notions of political-economy, is to treat a national economy or a choice of economic process (larger than a national economy), as it were a consolidated agro-industrial enterprise. Since nearly all of the exchanges and other economic matters are contained within that "consolidated enterprise," aproximating a closed economic process, matters such as the sale of services and other intangibles are cancelled out of isolated exchanges. Instead, services, for example, appear in the accounts as the total amount of services employed by the society.

For example, referring to the outlined calculation above, the rate of inflation in a society is a function of total employment, its composition as a whole, and the productivity and ration of the operatives' component of the total labor-force.

There are two approaches to determining the effect of individual transactions upon the state of the economic process as a whole. One approach is that typified by the fallacious method of GNP accounting. This approach attempts to adduce the total as the sum of parts estimated individually. The approach of economic science is opposite; the significance of the particular is determined by its immediate connection to tioning of the economic process as a whole.

For example, we do not add up employment of operatives; rather, we examine the effect of the increase or decrease of the operatives' component of the total labor-force on the economy as a whole. We examine this in more detail, in terms of the division of labor within the operatives component: for example, the difference between adding an operative to employment in the machine-tool sector, as opposed to garment manufacturing.

By this approach, we are enabled to construct estimates of economic value which are independent of any information respecting price. The outlined calculations presented earlier here, imply such a calculation.

The term economic science is strictly equatable with what Leibniz defined as a science of physical economy. That science measures output in terms of the contents of a market-basket sufficient to sustain the household of an operative at a level of health, longe ae, and culture, consistent with the level of technology being practised. The cost of production of such unit-value market-baskets in quantities adequate to the needs of the whole population, and to the needs of production itself, is measured in terms of a percentile of the total labor of the operatives' component of the total labor-force.

We measure the costs of production in terms of average per-capita values of combined producers' and households' goods, and anticipate a gain in such goods, over these requirements, as output of the productive process.

In those terms of primary reference, we examine the effect of powered machinery upon productivity of operatives, both per capita and per hectare. The inclusion of per-hectare is ruqired to coorelate results with potential population-density. How does increase of the power supplied to machinery, per capita, affect the increase of productivity of operatives?

The definition of technology is introduced so.

In the hypothetical case, two powered machines, with the same per-capita power-consumption-rates, employed for the same production, if used alternately by the same operative, might result in a higher rate of output using the one, than the other. The difference in internal organization of machinery, which acccounts for that difference in performance, is the raw empirical definition of technology.

Inevitably, it correlates with the geometrical definition of physical least-action. That correct definition of technology, leads toward a better, more intelligible representation of measurable technology in terms of the constructive geometry of the Gauss-Riemann complex domain. It is sufficient to identif that fact here; further elaboration of the point is not relevant here.

These considerations define a primary economic function, which may be represented approximately in terms of constraints expressed in the form of a system of inequalities:

1. The per-capita market-basket of requirements must tend to

increase, in correlation with technological progress.

2. The power-density, per capita and per hectare, must tend to increase in correlation with technological progress. This includes a secular tendency for increase of the power-density per unit cross-sectional area of work.

3. There are changes in the composition of employment of the labor-force which correlate with combined advances in technology and increase of power-density. On condition that the percentile of the labor-force employed in occupations other than those of operatives is not allowed to become excessive, the following set of constraints applies:

   a) The ratio of urban to rural employment increases toward an assymptotic limit.

   b) The ratio of employment of operatives employed in production of producers' goods increases relative to the number employed in production of households' goods.

   c) Within the ration of employment in production of producers' goods, the sub-ration employed within sub-sectors including or proximate to machine-tool production increases.

4. The level of technology increases secularly.

The function of monetary and related policies, is to shape the flows of money and credit in such a way as to promote the results implicit in such a set of physical-economic constraints. Instead of the misguided, but prevailing practice, of measuring the performance of physical economy in terms of money, the exact reverse must be the rule. The performance of moentary and related policies of taxation, banking, credit, and regulatory actions, must be measured in terms of the requirements which these constraints specify for fostering the development of both the individual standard of living and physical economy generally.

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